

**SAN LUIS OBISPO COUNTY
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
San Luis Obispo County Community College District
San Luis Obispo, 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 San Luis Obispo County Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 16, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 61, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 62, and the Schedule of District Contributions on page 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vawrnick, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 21, 2016



SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

Thousands of Success Stories

INTRODUCTION

This introduction to the District-wide financial statements provides background information regarding the financial position and activities of the San Luis Obispo County Community College District - Cuesta College (the District) for the years ended June 30, 2016 and 2015. We encourage readers to consider the information presented in this Management's Discussion and Analysis in conjunction with the financial statements and accompanying notes to the financial statements.

Overview of the District-Wide Basic Financial Statements

The focus of the Statement of Net Position is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Position focuses on the costs of the District's operational activities, which are supported primarily by local property taxes and State apportionment revenues. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District. The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in the District-wide financial statements.

This Annual Report

This annual report consists of the following sections:

- Management's Discussion and Analysis (MD&A) utilizing a current year/prior year format;
- District-Wide Basic Financial Statements, including required Notes to the Financial Statements; and
- Supplementary Information.

FINANCIAL HIGHLIGHTS

This section provides condensed information for each of the three basic financial statements, as well as illustrative charts, graphs, and tables.

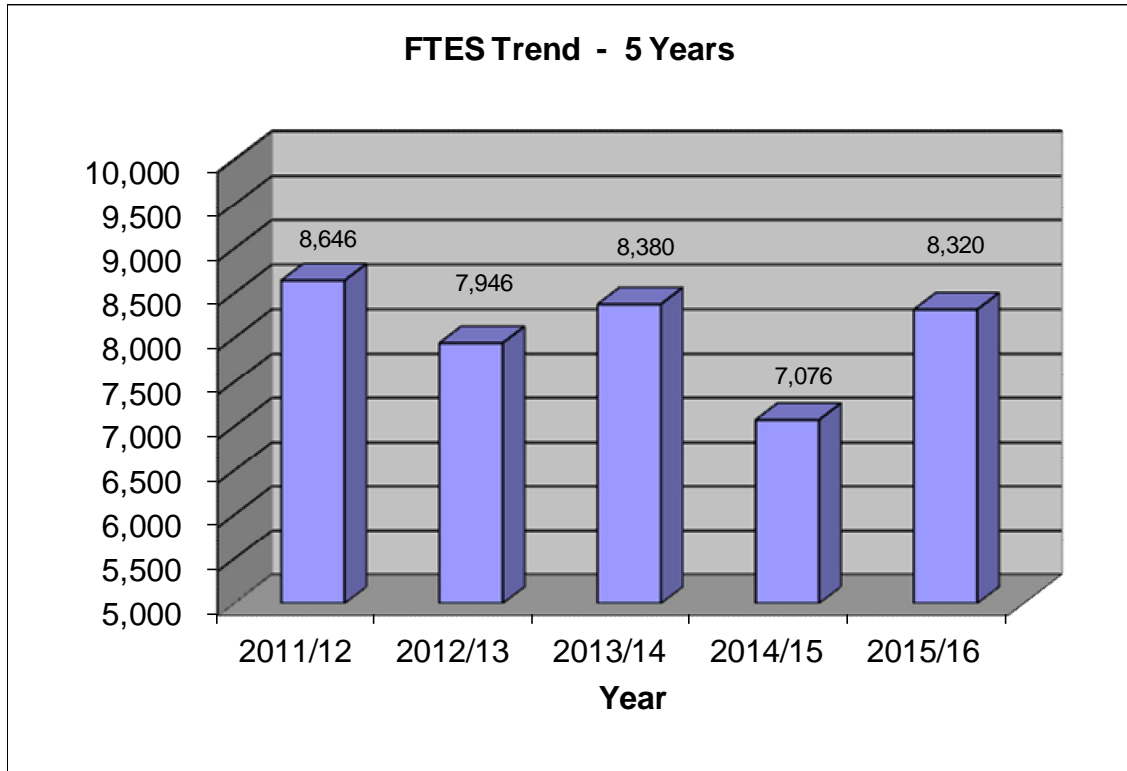
The District's primary funding is based upon an apportionment allocation made by the State of California, Community Colleges Chancellor's Office (System Office). The primary basis for the Chancellor's apportionment calculation is the District's reporting of Full-Time Equivalent Students (FTES). During fiscal years 2015-2016 and 2014-2015, the District's FTES was 8,320 and 7,076, respectively.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The graph below depicts the District's five-year trend for FTES:



After the System Office calculates the District's base apportionment, it reduces the net amount to be distributed by the amount of property taxes, Prop 30 Education Protection Act funds, and enrollment fees expected to be paid directly to the District. The matrix below lists the four components and illustrates the net effect of the actual receipts for fiscal year 2015-2016 as compared to fiscal year 2014-2015:

<u>Fiscal Year</u>	<u>2016</u>	<u>2015</u>	<u>Difference</u>
Property tax	\$ 35,391,872	\$ 32,768,580	\$ 2,623,292
Enrollment fees	3,914,173	3,993,008	(78,835)
Apportionment	1,719,485	-	1,719,485
Education Protection Act	5,165,817	6,574,833	(1,409,016)
Total	<u>\$ 46,191,347</u>	<u>\$ 43,336,421</u>	<u>\$ 2,854,926</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

CONDENSED DISTRICT-WIDE FINANCIAL INFORMATION IS AS FOLLOWS:

Condensed Statement of Net Position as of June 30, 2016 and 2015

Amounts in thousands

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash, investments, and short-term receivables	\$ 81,028	\$ 81,767
Inventory and other assets	589	600
Total Current Assets	<u>81,617</u>	<u>82,367</u>
Noncurrent Assets		
Capital assets, net of depreciation	119,477	114,585
Total Assets	<u>201,094</u>	<u>196,952</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	10,308	3,368
Total Assets and Deferred Outflows	<u>\$ 211,402</u>	<u>\$ 200,320</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 5,467	\$ 4,084
Unearned revenue	2,836	2,208
Current portion - long-term obligations other than pensions	8,361	441
Total Current Liabilities	<u>16,664</u>	<u>6,733</u>
Noncurrent Liabilities		
Noncurrent portion - long-term obligations other than pensions	82,062	90,514
Aggregate net pension obligation	47,916	40,603
Total Noncurrent Liabilities	<u>129,978</u>	<u>131,117</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	<u>11,047</u>	<u>11,832</u>
NET POSITION		
Net investment in capital assets	79,991	84,229
Restricted	15,128	10,967
Unrestricted	(41,406)	(44,558)
Total Net Position	<u>53,713</u>	<u>50,638</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 211,402</u>	<u>\$ 200,320</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The preceding schedule has been prepared from the District's Statement of Net Position (page 17) which is presented on the accrual basis of accounting whereby assets are capitalized and depreciated. Cash and investments (above) consist primarily of funds held in the San Luis Obispo County Treasury. A portion of the unrestricted net position has been designated by the Board or by contract for such purposes as Federal and State grants, bookstore reserves, and general reserves to ensure the ongoing financial health of the District.

Capital assets net of depreciation increased by \$5 million. The increase was due to the passage of Measure L in November 2014. Measure L approved the District to issue \$275 million in general obligation bonds. The first series of bonds of \$75 million were issued in March 2015. The District will issue bonds every three years for a total of four issuances. Capital assets improvements made in 2015-2016 include construction on the SLO Campus Instructional Building and North County Campus Center, pool and roof repairs, and planning costs associated with the Early Childhood Education Center and the Aquatic Center Renovation projects. The current portion of long-term obligations increased by \$8.0 million because of the first payment of the general obligation bond becoming due. The general obligation bond payments are made from tax revenue collected with the passage of Measure L.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Condensed Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2016 and 2015

Amounts in thousands

	<u>2016</u>	<u>2015</u>
REVENUES		
Operating Revenues		
Tuition and fees	\$ 6,626	\$ 6,732
Auxiliary sales and charges	2,676	2,913
Total Operating Revenues	<u>9,302</u>	<u>9,645</u>
Operating Expenses		
Salaries and benefits	51,322	48,041
Supplies, maintenance, and other operating expense	18,557	26,350
Student aid	12,385	11,132
Depreciation	3,770	3,803
Total Operating Expenses	<u>86,034</u>	<u>89,326</u>
Operating Loss	<u>(76,732)</u>	<u>(79,681)</u>
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	7,456	7,711
Property taxes	44,355	32,538
Grants and contracts	20,649	19,756
State revenues	7,063	2,371
Investment income	405	180
Interest expense	(3,489)	(502)
Other nonoperating	3,095	13,448
Total Nonoperating Revenues (Expenses)	<u>79,534</u>	<u>75,502</u>
Income (Loss) Before Other Revenues	<u>2,802</u>	<u>(4,179)</u>
Other Revenues		
State and local capital income	<u>274</u>	<u>299</u>
Net Change in Net Position	<u>\$ 3,076</u>	<u>\$ (3,880)</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The schedule presented above has been prepared from the Statement of Revenues, Expenses, and Changes in Net Position. State general apportionment, while budgeted for operations, is considered nonoperating revenue according to the Governmental Accounting Standards Board's (GASB) prescribed reporting format. Grant and contracts revenue includes student financial aid, as well as specific Federal and State grants received for programs serving the students of the District.

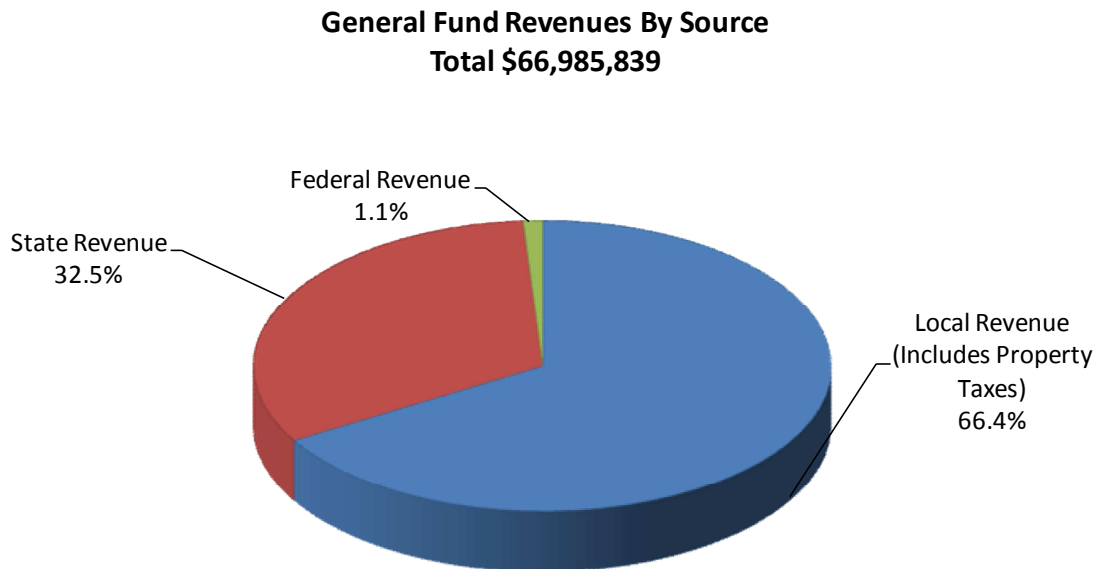
Operating revenues decreased by over \$300 thousand during fiscal year 2015-2016 as a result of less student tuition and fees collected and lower sales at the bookstore. Both of these declines are due to lower enrollment. Total operating expenditures decreased by \$3.3 million. Salaries and benefits increased by \$3.2 million. This was due to negotiated salary increases and increased employer costs for STRS and PERS retirement systems. Supplies, maintenance, and other operating expenses decreased by \$7.8 million primarily due to lower capital expenditures of general obligation bond funds. Student aid increased by \$1.2 million.

General Fund

While this MD&A and the District-wide financial statements report the financial position and results of operations for the District as a whole, the following pie charts are intended to give the reader information specific to the General Fund.

General Fund Revenues by Source

The chart below depicts the District's General Fund total revenues by source:



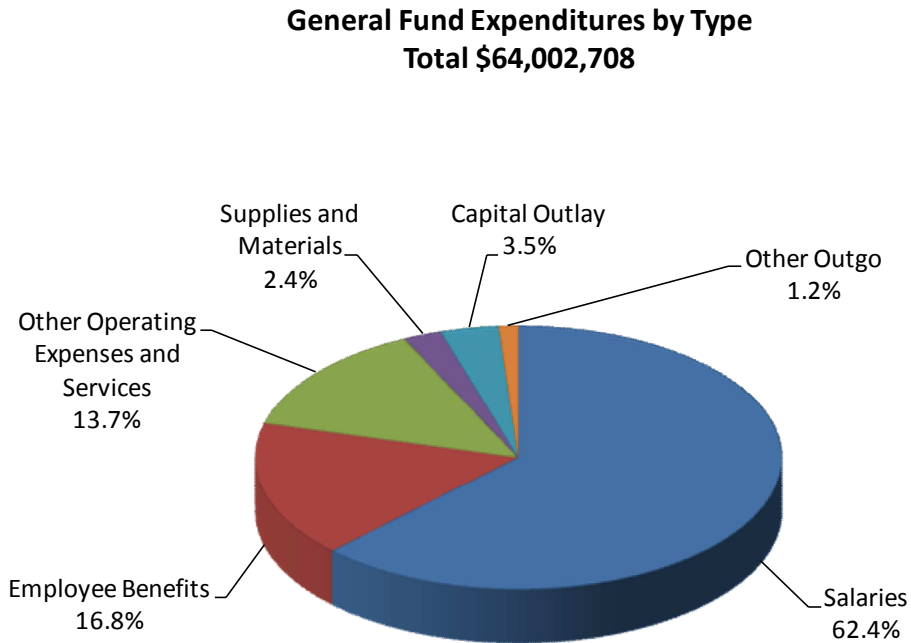
SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

General Fund Expenditures by Type

The chart below depicts the District's General Fund total expenditures by type:



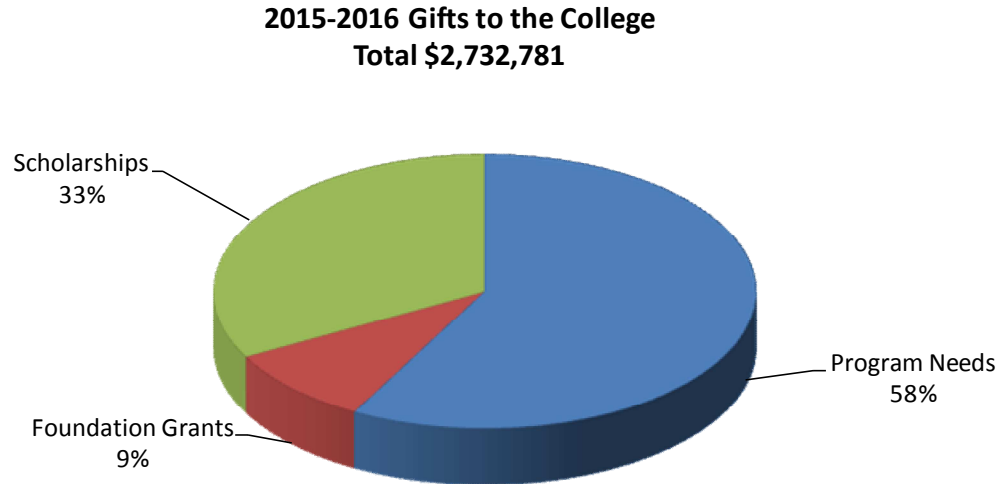
SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Gifts Received from the Cuesta College Foundation

The Cuesta College Foundation provides essential financial support for the college's programs, services, scholarships, and capital campaigns.

The chart below depicts the gifts the college received from of the Cuesta College Foundation.



Expenditures by Activity

The following table summarizes the District's expenditures by activity for the year ended June 30, 2016:

Functional Classifications	Salaries	Employee Benefits	Supplies, Materials, Other Operating Expenses and Services	Depreciation and Amortization	Total
Instructional	\$ 20,849,825	\$ 4,772,170	\$ 1,959,032	\$ -	\$ 27,581,027
Academic support	2,847,517	617,331	361,101	-	3,825,949
Student services	6,502,755	1,639,605	1,586,554	-	9,728,914
Operation and maintenance of plant	1,989,488	680,220	4,365,270	-	7,034,978
Institutional support	6,173,125	2,021,564	5,484,009	-	13,678,698
Community services and economic development	476,625	79,037	318,928	-	874,590
Auxiliary operations	2,134,357	538,610	3,479,829	-	6,152,796
Student aid	-	-	12,385,003	-	12,385,003
Other outgo	-	-	1,001,734	-	1,001,734
Depreciation	-	-	-	3,770,290	3,770,290
Total	\$ 40,973,692	\$ 10,348,537	\$ 30,941,460	\$ 3,770,290	\$ 86,033,979

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Condensed Statement of Cash Flows for the Years Ended June 30, 2016 and 2015

Amounts in thousands

	<u>2016</u>	<u>2015</u>
Cash Provided by (Used in)		
Operating activities	\$ (73,231)	\$ (75,402)
Noncapital financing activities	80,922	80,479
Capital financing activities	(11,391)	64,696
Investing activities	405	180
Net Change in Cash and Cash Equivalents	<u>(3,295)</u>	<u>69,953</u>
Cash and Cash Equivalents, Beginning of Year	78,524	8,571
Cash and Cash Equivalents, End of Year	<u>\$ 75,229</u>	<u>\$ 78,524</u>

The previous schedule has been prepared from the Statement of Cash Flows presented on pages 19 and 20. This statement provides information about cash receipts and cash payments during the fiscal year. It also helps users assess the District's ability to generate positive net cash flows and its ability to meet its obligations as they come due.

The primary operating activities contributing to cash flow are student tuition and fees and Federal, State, and local grants and contracts, while the primary operating activity using cash flow throughout the year is the payment of salaries and benefits.

Even though State apportionment and property taxes are the primary source of District revenue (and cash flow), GASB accounting standards require that these sources of revenue be shown as nonoperating revenue since they come from the general resources of the State and not from the primary users of the District's programs and services (students). Nevertheless, the District depends upon this funding as the primary source of funds to continue operations.

MEASURE L

Measure L, a general obligation bond, was passed by the voters of San Luis Obispo and Monterey counties on November 4, 2014. The bond required a 55 percent approval to be successful; it achieved 62 percent. Measure L authorizes the District to issue \$275 million in bonds to benefit the District. The funds were designated to repair, construct and acquire facilities and equipment; update classrooms; improve career education programs; repair gas and electrical lines and upgrade technology.

The District will issue a series of four bonds every three years. The first series was issued in March of 2015 for \$75 million. The proceeds will be used for the following projects: HVAC/roof repairs, Aquatics Center planning and renovations, interim housing, North County Campus Center, SLO Campus Instructional Building, technology upgrades, and debt retirement.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

As of June 30, 2016, three of four HVAC/roof repairs have been completed, interim housing has been installed and occupied to house the displaced departments while the new buildings are constructed, the 2009 Certificated of Participation have been retired, technology upgrades have been identified and prioritized, and construction on the North County Campus Center and SLO Instructional Buildings has begun. Both buildings are scheduled to be completed in Fall 2017.

The second bond series of \$70 million is scheduled to be issued in January 2018. Projects scheduled for the second issuance include: SLO Campus Center, North County Early Childhood Education Center, building repairs and upgrades, technology upgrades, and debt retirement.

Current information on the bond program can be found at www.cuestacollegebond.info.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

State Budget Overview

The 2016-2017 Budget Act reflects a State economy in the midst of a modest cycle of economic expansion. Despite reasonable year-over-year revenue growth, the Governor continues to warn against overcommitting State resources during good times for fear of retraction when the State faces an inevitable economic downturn. The total State General Fund expenditures are estimated at \$122.2 billion, which is a \$6.5 billion increase over the 2015 Budget Act. The final budget includes a reserve for economic uncertainties of \$1.8 billion and the Rainy Fund has grown to \$6.7 billion.

While there are few economic indicators pointing toward a recession at the moment, the State's Department of Finance is projecting a return to budget deficits in the near future due to new State commitments. These commitments include an increase in the minimum wage, increases for developmental disability services, and a revised financing package for Medi-Cal. The Governor further notes that, at seven years, the current economic expansion is already two years longer than the average post-war recovery.

Key features of the Governor's proposal include paying down debt, enhancing the Rainy Day Fund, increased funding for education, investments in State infrastructure and deferred maintenance, emission reduction through Cap and Trade expenditures, and anti-drought efforts.

The District's final budget reflects the budget agreement reached between the Governor and Legislature and incorporates allocation details provided by the Chancellor's Office.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

California Community Colleges

The 2016-2017 Budget Act assumes the K-14 Proposition 98 minimum guarantee of \$71.9 billion, which is a \$3.5 billion increase over the 2015-2016 Budget Act. The increase is primarily due to the relative strength in the State's per capita income, which is a key component to the calculation of the guarantee. New allocations to community colleges are as follows:

Ongoing Funds

- Cost of Living Adjustment - 0%
- Enrollment Growth - \$115 million (2% Statewide)
- Strong Workforce - \$200 million
- Operating Costs - \$75 million
- Career Technical Education - \$48 million
- Basic Skills - \$30 million
- Institutional Effectiveness - \$10 million
- CalWORKs - \$8.7 million
- Expanded broadband capacity - \$5 million (plus \$7 million one-time)
- Part-time Faculty Office hours - \$3.6 million

One-time Funds

- Mandate Backlog - \$105.8 million
- Deferred Maintenance and Instructional Equipment - \$184.5 million
- Online Education - \$20 million
- Innovation Awards - \$25 million
- Statewide data security - \$3 million
- Zero-Textbook-Cost Degrees - \$5 million
- E-readers for incarcerated students - \$3 million

Other Funds

- Proposition 39 Funding - \$49.2 million
- Adult Education - \$505 million (\$5 million is for Statewide activities)

Challenges Ahead for the District

- The ability to increase FTES in order to increase and/or stabilize revenues.
- Increasing rates for PERS and STRS.
- Avoiding commitment of one-time revenues for ongoing expenditures.
- Increased expenses with the adoption of the Health Care Reform Act in 2014.
- The rising cost of technology, service contracts, supplies, and facility maintenance.
- The ability to maintain required match on categorical funds.
- Compliance with the 50% Law.
- Threat of an economic slowdown.
- Phase out of Proposition 30. The sales tax component expires at the end of 2016, and the income tax portion expires at the end of 2018. Proposition 55 extends the income tax component until 2030, but it doesn't extend the increased sales tax.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, 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 the San Luis Obispo County Community College District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

ASSETS

Current Assets

Cash and cash equivalents	\$ 860,640
Short-term investments - unrestricted	18,798,812
Short-term investments - restricted	55,570,033
Accounts receivable	5,602,930
Student receivables, net	171,287
Due from fiduciary funds	25,000
Prepaid expenses	33,591
Inventories	555,250
Total Current Assets	<u>81,617,543</u>

Noncurrent Assets

Nondepreciable capital assets	11,228,222
Depreciable capital assets, net of depreciation	108,248,597
Total Noncurrent Assets	<u>119,476,819</u>
TOTAL ASSETS	<u>201,094,362</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	<u>10,307,854</u>
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LIABILITIES

Current Liabilities

Accounts payable	4,183,867
Accrued interest payable	1,283,086
Unearned revenue	2,836,109
Current portion of long-term obligations other than pensions	8,361,154
Total Current Liabilities	<u>16,664,216</u>

Noncurrent Liabilities

Noncurrent portion of long-term obligations other than pensions	82,061,591
Aggregate net pension obligation	47,916,096
Total Noncurrent Liabilities	<u>129,977,687</u>
TOTAL LIABILITIES	<u>146,641,903</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	<u>11,046,977</u>
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NET POSITION

Net investment in capital assets	79,990,980
Restricted for:	
Debt service	13,443,161
Capital projects	504,806
Educational programs	1,180,479
Unrestricted	(41,406,090)
TOTAL NET POSITION	<u>\$ 53,713,336</u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

OPERATING REVENUES	
Student Tuition and Fees	\$ 10,835,637
Less: Scholarship discounts and allowances	<u>(4,209,506)</u>
Net tuition and fees	<u>6,626,131</u>
Auxiliary Enterprise Sales and Charges	
Bookstore	2,238,116
Other Operating Revenues	<u>437,549</u>
TOTAL OPERATING REVENUES	<u><u>9,301,796</u></u>
OPERATING EXPENSES	
Salaries	40,973,692
Employee benefits	10,348,537
Supplies, materials, and other operating expenses and services	14,874,378
Equipment, maintenance, and repairs	3,682,079
Student aid	12,385,003
Depreciation	<u>3,770,290</u>
TOTAL OPERATING EXPENSES	<u><u>86,033,979</u></u>
OPERATING LOSS	<u><u>(76,732,183)</u></u>
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	7,456,091
Local property taxes, levied for general purposes	44,354,860
Grants and Contracts, noncapital	
Federal	12,336,373
State	8,312,492
State taxes and other revenues	7,063,369
Investment income	405,312
Interest expense on capital related debt	(3,545,681)
Investment income on capital asset-related debt	56,581
Transfer from fiduciary funds	69,899
Loss on disposal of capital assets	(72,281)
Other nonoperating revenues	<u>3,097,069</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>79,534,084</u></u>
INCOME BEFORE OTHER REVENUES	<u><u>2,801,901</u></u>
OTHER REVENUES	
State revenues, capital	203,859
Local revenues, capital	<u>69,754</u>
TOTAL OTHER REVENUES	<u><u>273,613</u></u>
CHANGE IN NET POSITION	3,075,514
NET POSITION, BEGINNING OF YEAR	<u>50,637,822</u>
NET POSITION, END OF YEAR	<u><u>\$ 53,713,336</u></u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 6,577,424
Payments of student financial aid	(12,385,003)
Payments to vendors for supplies and services	(18,445,447)
Payments to or on behalf of employees	(51,653,502)
Auxiliary enterprise sales and charges	
Bookstore	2,675,665
Net Cash Flows From Operating Activities	<u>(73,230,863)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	7,063,369
Property taxes - nondebt related	44,354,860
Noncapital grants and contracts	21,499,576
State taxes and other apportionments	5,736,606
Other nonoperating revenues	2,268,127
Net Cash Flows From Noncapital Financing Activities	<u>80,922,538</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Acquisition and construction of capital assets	(8,577,394)
Changes in State revenue, capital projects	162,053
Principal paid on capital debt	(685,721)
Interest paid on capital debt	(2,346,833)
Interest received on capital asset-related debt	56,581
Net Cash Flows From Capital Financing Activities	<u>(11,391,314)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	<u>405,312</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	78,523,812
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 75,229,485</u></u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

Operating Loss	<u>\$ (76,732,183)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	3,770,290
Changes in Operating Assets, Deferred Outflows, Liabilities, and Deferred Inflows:	
Receivables, net	166,763
Inventories	(45,140)
Prepaid expenses and other assets	56,297
Accounts payable and accrued liabilities	27,115
Unearned revenue	(215,470)
Deferred outflows of resources related to pensions	(6,939,450)
Deferred inflows of resources related to pensions	(786,012)
Aggregate net pension obligation	7,312,997
OPEB obligation	38,931
Compensated absences, compensatory time, load banking and retirement incentives	<u>114,999</u>
Total Adjustments	<u>3,501,320</u>
Net Cash Flows From Operating Activities	<u><u>\$ (73,230,863)</u></u>

**CASH AND CASH EQUIVALENTS CONSIST
OF THE FOLLOWING:**

Cash in banks	\$ 860,640
Cash in County Treasury and money market	<u>74,368,845</u>
Total Cash and Cash Equivalents	<u><u>\$ 75,229,485</u></u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 1,458,950</u></u>
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The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2016

	<u>Trust</u>	<u>Agency Funds</u>
ASSETS		
Investments	\$ 292,871	\$ 239,418
Accounts receivable	9,129	-
Total Assets	<u>302,000</u>	<u>\$ 239,418</u>
 LIABILITIES		
Due to primary government	\$ 25,000	\$ -
Due to student groups	-	239,418
Total Liabilities	<u>25,000</u>	<u>\$ 239,418</u>
 NET POSITION		
Unreserved	<u>\$ 277,000</u>	

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

	<u>Trust</u>
ADDITIONS	
Local revenues	\$ 714,245
DEDUCTIONS	
Academic salaries	
Classified salaries	24,160
Employee benefits	93
Books and supplies	5,310
Services and operating expenditures	96,474
Capital outlay	245
Total Deductions	<u>126,282</u>
EXCESS OF REVENUES OVER EXPENSES	<u>587,963</u>
OTHER FINANCING USES	
Transfers to primary government	(69,899)
Other uses	(525,574)
Total Other Financing Uses	<u>(595,473)</u>
Change in Net Position	(7,510)
Net Position - Beginning	284,510
Net Position - Ending	<u>\$ 277,000</u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - ORGANIZATION

The San Luis Obispo County Community College District (the District) was established in 1963 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, capital project funds, and proprietary funds, but these budgets are managed at the department level. Currently, the District operates Cuesta College in San Luis Obispo, a satellite campus in Paso Robles, and a center in Arroyo Grande, California. 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 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

Financial Reporting Entity

The District has adopted GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by GASB, the financial reporting entity consists of the primary government and the District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The following entity met the criteria for inclusion as a "blended" component unit and is consolidated within the financial statements of the District:

- San Luis Obispo County Community College District Financing Corporation

The San Luis Obispo County Community College District Financing Corporation (the Corporation) is a legally separate organization and a component unit of the District. The Corporation was formed to issue debt specifically for the acquisition and construction of capital assets for the District. The financial activity has been "blended" or consolidated within the financial statements of the District as if the activity was the District's. Certificates of Participation issued by the Corporation are included as long-term obligations of the District. Individually prepared financial statements are not prepared for the Corporation. Condensed component unit information for the Corporation, the District's blended component unit, for the year ended June 30, 2016, is as follows:

Condensed Statement of Net Position

ASSETS

Cash and cash equivalent	\$ 2,145,367
Due from other fund	43,000
Total Assets	<u><u>\$ 2,188,367</u></u>

NET POSITION

Restricted for:	
Debt services	<u><u>\$ 2,188,367</u></u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position

NONOPERATING REVENUES

Investment income	<u>\$ 8,604</u>
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EXPENDITURES

(816,941)

TRANSFER IN

235,899

CHANGE IN NET POSITION

(572,438)

NET POSITION, BEGINNING OF YEAR

2,760,805

NET POSITION, END OF YEAR

\$ 2,188,367

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year 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 grants and entitlements 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 District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, and No. 39. 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 three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows.

Investments

Investments held at June 30, 2016, with original maturities greater than one year, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets 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 assets 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 and capital asset projects.

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 \$2,069,013 for the year ended June 30, 2016.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Prepaid Expenses

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

Inventories

Inventories consist primarily of bookstore merchandise held for resale to the students and faculty of the college. Inventories are stated at cost, utilizing the weighted average method. The cost is recorded as an expense as the inventory is consumed.

Debt Issuance Costs, Premiums, and Discounts

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

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, building and land improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction in progress as the projects are constructed. Routine repairs and maintenance that do not extend the life of the building or equipment are charged as operating expenses in the year the expense is incurred.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; portables, 15 years; improvements, 10 years; equipment, 10 years; vehicles, 8 years; and technology, 3 years.

Accrued Liabilities and Long-Term Obligations

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

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 pension related items.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid within the fund from which the employees who have accumulated the leave are paid. The District also participates in "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period. The liability for this benefit is reported on the entity-wide financial statements.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

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 revenues include (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 are recorded as unearned revenue.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, compensatory time, load banking, OPEB obligations, and the aggregate net pension obligation with maturities greater than one year.

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 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 of net investment 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 District-wide financial statements report \$15,128,446 of restricted net position.

State Apportionments

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

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Luis Obispo bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The voters of the District passed a General Obligation Bond in November 2014 for the acquisition, construction, and remodeling of certain District property. 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 as noted above and remitted to the District when collected.

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

Estimates

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

Interfund Activity

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

Change in Accounting Principles

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

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

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

New Accounting Pronouncements

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

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

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

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

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

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

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

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 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 pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Authorized Under Debt Agreements

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

Summary of Deposits and Investments

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

Primary government	\$ 75,229,485
Fiduciary funds	532,289
Total Deposits and Investments	<u>\$ 75,761,774</u>
Cash on hand and in banks	\$ 850,640
Cash in revolving	10,000
Investments	74,901,134
Total Deposits and Investments	<u>\$ 75,761,774</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 primarily investing in the San Luis Obispo County Investment Pool or purchasing money market funds. The District maintains an investment of \$74,029,724 with the San Luis Obispo County Investment Pool with a weighted maturity of 608 days. In addition, the District also has an investment of \$871,410 in money market funds with U.S. Bank.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Luis County Investment Pool was rated by Fitch Ratings as AA Af/S1. The U.S. Bank money market account was not rated.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 for deposits. 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 agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance was \$860,640. Of this balance, \$201,989 was exposed to custodial credit risk because it was uninsured but is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

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

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

Uncategorized - Investments in the San Luis Obispo County 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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Investment Type	Fair Value	Level 2 Inputs	Uncategorized
San Luis Obispo County Investment Pool	\$ 74,189,737	\$ -	\$ 74,189,737
U.S. Bank Money Market	871,410	871,410	-
Total	\$ 75,061,147	\$ 871,410	\$ 74,189,737

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

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

The accounts receivable are as follows:

	Primary Government
Federal Government	
Categorical aid	\$ 252,863
State Government	
Apportionment	1,719,485
Categorical aid	584,733
Lottery	756,328
Local Sources	
Foundation	658,600
Interest and other local sources	1,630,921
Total	\$ 5,602,930
Student receivables	\$ 2,240,300
Less allowance for bad debt	(2,069,013)
Student receivables, net	\$ 171,287
	Fiduciary Funds
Other local sources	\$ 9,129

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Capital Assets Not Being Depreciated				
Land	\$ 1,216,661	\$ -	\$ -	\$ 1,216,661
Construction in progress	4,196,192	5,932,404	117,035	10,011,561
Total Capital Assets Not Being Depreciated	<u>5,412,853</u>	<u>5,932,404</u>	<u>117,035</u>	<u>11,228,222</u>
Capital Assets Being Depreciated				
Land improvements	15,230,157	-	-	15,230,157
Portable buildings	3,127,728	-	2,308,345	819,383
Buildings and improvements	139,386,879	1,539,170	-	140,926,049
Equipment	4,238,359	564,386	17,712	4,785,033
Technology equipment	7,493,275	690,578	1,385	8,182,468
Furniture and fixtures	152,442	-	-	152,442
Vehicles	1,216,962	125,109	-	1,342,071
Total Capital Assets Being Depreciated	<u>170,845,802</u>	<u>2,919,243</u>	<u>2,327,442</u>	<u>171,437,603</u>
Total Capital Assets	<u>176,258,655</u>	<u>8,851,647</u>	<u>2,444,477</u>	<u>182,665,825</u>
Less Accumulated Depreciation				
Land improvements	12,977,868	463,959	-	13,441,827
Portable buildings	3,035,145	5,552	2,236,064	804,633
Buildings and improvements	34,236,405	2,725,819	-	36,962,224
Equipment	3,246,208	247,180	19,097	3,474,291
Technology equipment	7,141,970	253,004	-	7,394,974
Furniture and fixtures	152,442	-	-	152,442
Vehicles	883,839	74,776	-	958,615
Total Accumulated Depreciation	<u>61,673,877</u>	<u>3,770,290</u>	<u>2,255,161</u>	<u>63,189,006</u>
Net Capital Assets	<u>\$ 114,584,778</u>	<u>\$ 5,081,357</u>	<u>\$ 189,316</u>	<u>\$ 119,476,819</u>

Depreciation expense for the year was \$3,770,290.

Interest expense on capital related debt for the year ended June 30, 2016, was \$3,987,545. Of this amount, \$441,864 was capitalized.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	<u>Primary Government</u>
Vendor payables	\$ 1,916,888
Construction	1,344,962
Accrued payroll	357,799
Instructional service agreements	564,218
Total	<u>\$ 4,183,867</u>

NOTE 8 - SHORT-TERM BORROWING

The District issued \$3,595,000 of Tax and Revenue Anticipation Notes dated July 8, 2015. The notes mature on June 30, 2016, and yield .35 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent with 50 percent due in January 2016 and the balance due in April 2016.

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2016</u>
7/8/2015	0.35%	6/30/2016	\$ -	\$ 3,595,000	\$ 3,595,000	\$ -

NOTE 9 - UNEARNED REVENUE

Unearned revenue consisted of the following:

	<u>Primary Government</u>
State categorical aid	\$ 1,594,241
Student tuition and fees and other	868,863
Other State-RDA	373,005
Total	<u>\$ 2,836,109</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 10 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2016, the fiduciary funds owed the primary government \$25,000.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2016 fiscal year, the amount transferred to the primary government from the fiduciary fund amounted to \$69,899.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
Bonds and Notes Payable					
General Obligation Bond - Series A	\$ 75,000,000	\$ -	\$ -	\$ 75,000,000	\$ 7,905,000
Unamortized Bond Premium	6,032,642	-	244,567	5,788,075	-
2003 Certificates of participation	1,115,000	-	255,000	860,000	260,000
2009 Certificates of participation	6,910,000	-	140,000	6,770,000	150,000
Notes payable	146,154	-	46,154	100,000	46,154
Total Bonds and Notes Payable	<u>89,203,796</u>	<u>-</u>	<u>685,721</u>	<u>88,518,075</u>	<u>8,361,154</u>
Other Obligations					
Compensated absences	1,165,402	117,505	-	1,282,907	-
Compensatory time	44,247	8,950	-	53,197	-
Net OPEB obligation	349,354	70,652	31,721	388,285	-
Load banking	191,737	-	11,456	180,281	-
Aggregate net pension obligation	40,603,099	7,312,997	-	47,916,096	-
Total Other Obligations	<u>42,353,839</u>	<u>7,510,104</u>	<u>43,177</u>	<u>49,820,766</u>	<u>-</u>
Total Long-Term Obligations	<u>\$ 131,557,635</u>	<u>\$ 7,510,104</u>	<u>\$ 728,898</u>	<u>\$ 138,338,841</u>	<u>\$ 8,361,154</u>

Description of Debt

Payments on the general obligation bonds are to be made by the Bond Interest and Redemption Fund with local property tax collections. Certificates of participation are paid from the unrestricted resources of the General Fund and payment is made through the Other Debt Service Fund. The note payable is paid from resources of the unrestricted General Fund. Compensated absences, compensatory time, and the aggregate net pension obligation payments are employee related and are paid in the funds where the employee's payroll is paid. The net OPEB obligation is paid by the unrestricted General Fund. Load banking is an obligation of the General Fund.

Bonded Debt

General obligation bonds were approved by a local election on November 4, 2014. The total amount approved by the voters was \$275,000,000 to finance the repair, upgrading, acquisition, construction, and equipping of certain District property and facilities. A portion of the proceeds were used to pay off the District's 2006 Certificates of Participation in February 2015.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Election of 2014 General Obligation Bonds, Series A and Series A-1

On February 18, 2015, the District issued the Election of 2014 General Obligation Bonds, Series A and Series A-1 in the amount of \$75,000,000. The bonds mature beginning August 1, 2016 through August 1, 2040, with interest rates ranging from 2.00 percent to 5.00 percent. At June 30, 2016, the principal balance outstanding was \$75,000,000, and the unamortized premium was \$5,788,075. Premiums are amortized over the life of the bonds as a component of interest expense on the bonds.

The outstanding general obligation bonded debt is as follows:

Issue Date	Series	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 1, 2015	Issued	Redeemed	Outstanding June 30, 2016
2/18/2015	2014 Series A and A-1	8/1/2040	2% - 5%	\$ 75,000,000	\$ 75,000,000	\$ -	\$ -	\$ 75,000,000

The general obligation bonds mature through 2041 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2017	\$ 7,905,000	\$ 2,810,996	\$ 10,715,996
2018	7,670,000	2,616,896	10,286,896
2019	6,325,000	2,375,346	8,700,346
2020	465,000	2,241,871	2,706,871
2021	570,000	2,226,973	2,796,973
2022-2026	4,715,000	10,776,475	15,491,475
2027-2031	8,960,000	9,316,250	18,276,250
2032-2036	15,220,000	6,400,925	21,620,925
2037-2041	23,170,000	2,460,000	25,630,000
Total	\$ 75,000,000	\$ 41,225,732	\$ 116,225,732

2003 Certificates of Participation

On July 15, 2003, the San Luis Obispo County Community College District Financing Corporation issued \$3,325,000 of certificates of participation with interest rates ranging from 1.10 percent to 3.80 percent. The certificates mature through July 2017 (fiscal year 2018). At June 30, 2016, the principal balance outstanding is \$860,000.

Year Ending June 30,	Principal	Interest	Total
2017	\$ 260,000	\$ 27,480	\$ 287,480
2018	600,000	11,400	611,400
Total	\$ 860,000	\$ 38,880	\$ 898,880

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

2009 Certificates of Participation

In November 2009, the District issued \$24,995,000 of certificates of participation to finance the acquisition and construction of certain facilities and refinance certain District obligations. The certificates' interest rates range from 3.1 percent to 5.9 percent. The certificates mature through 2040. At June 30, 2016, the principal balance outstanding is \$6,770,000.

Year Ending June 30,	Principal	Interest	Total
2017	\$ 150,000	\$ 373,919	\$ 523,919
2018	155,000	367,625	522,625
2019	160,000	360,731	520,731
2020	170,000	353,094	523,094
2021	175,000	344,791	519,791
2022-2026	1,025,000	1,574,763	2,599,763
2027-2031	1,330,000	1,254,522	2,584,522
2032-2036	1,760,000	812,219	2,572,219
2037-2040	1,845,000	225,452	2,070,452
Total	<u>\$ 6,770,000</u>	<u>\$ 5,667,116</u>	<u>\$ 12,437,116</u>

Notes Payable

The notes payable were issued in February 2013 in the amount of \$250,000 to fund energy efficiency retrofitting projects throughout the District.

The annual debt service requirements to amortize the notes payable outstanding as of June 30, 2016, are as follows:

Year Ending June 30,	
2017	\$ 46,154
2018	46,154
2019	7,692
Total	<u>\$ 100,000</u>

Compensated Absences and Compensatory Time

Compensated absences and compensatory time at June 30, 2016, are \$1,282,907 and \$53,197, respectively.

Load Banking

In accordance with the bargaining unit agreement with faculty, unpaid excess courses taught by faculty may be exchanged for reduced teaching load in future terms. The value is based on the salary of the faculty member when earned and is calculated using full-time equivalent units. The accumulated unused value at June 30, 2016, is \$180,281.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$64,915, and contributions made by the District during the year were \$31,721. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$17,468 and \$(11,731), respectively, which resulted in an increase to the net OPEB obligation of \$38,931. As of June 30, 2016, the net OPEB obligation was \$388,285. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Aggregate Net Pension Obligation

The District's aggregate net pension obligation for the year ended June 30, 2016, was \$47,916,096. See Note 14 for additional information regarding the District's net pension liability and the employee retirement plans.

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

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

Plan Description

The District offers limited postemployment benefits. One former administrator was offered lifetime health benefits as part of their employment contract. Other than this administrator, certain eligible active and retired employees are provided the opportunity to purchase insurance directly from providers through the District, thereby providing employees with a benefit derived from the combined purchasing power of the employees who elect to participate. Membership of the plan consists of 38 retirees and 394 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. For the fiscal year 2015-2016, the District's actuarial contribution to the plan was \$31,721 all of which was used for current premiums.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 64,915
Interest on net OPEB obligation	17,468
Adjustment to annual required contribution	(11,731)
Annual OPEB cost (expense)	<u>70,652</u>
Contribution made	<u>(31,721)</u>
Increase in net OPEB obligation	38,931
Net OPEB obligation, July 1, 2015	349,354
Net OPEB obligation, June 30, 2016	<u><u>\$ 388,285</u></u>

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 109,742	\$ 40,104	37%	\$ 284,021
2015	109,517	44,184	40%	349,354
2016	70,652	31,721	45%	388,285

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2016, is as follows:

Actuarial Accrued Liability (AAL)	\$ 417,031
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 417,031</u></u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	<u><u>\$ 35,093,856</u></u>
UAAL as Percentage of Covered Payroll	<u><u>1%</u></u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The above noted actuarial accrued liability was based on the February 1, 2016, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the February 1, 2016, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return based on the assumed long-term return on plan assets or employer assets. The cost trend rate used for the medical program was four percent. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period is 24 years. The actuarial value of assets was not determined in this actuarial study.

NOTE 13 - RISK MANAGEMENT

Property and Liability Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Joint Powers Authority Risk Pools

During fiscal year ended June 30, 2016, the District contracted with the Bay Area Community College District Joint Powers Authority 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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Workers' Compensation

For fiscal year 2015-2016, the District participated in the Self-Insurance Program for Employees (SIPE) Joint Powers Authority (JPA), an insurance purchasing pool. The District is self insured for the first \$10,000 of each workers' compensation claim. 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 savings. 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.

Employee Medical Benefits

The District offers a variety of medical benefit options to its employees. This includes utilizing both services provided by agreements with two Joint Powers Authorities and direct programs through Blue Shield, an insurance provider.

The District has contracted with Self-Insured Schools of California (SISC III) to provide medical plans to faculty and other eligible District employees. SISC III is a shared risk pool. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of the claims flow. The Board of Directors has the right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

Also offered are vision and dental benefits. Dental benefits are provided through California Schools Dental Coalition, a Joint Powers Authority. Vision benefits are provided through Blue Shield, an insurance provider.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

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

<u>Pension Plan</u>	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 30,184,782	\$ 4,653,638	\$ 5,828,321	\$ 2,237,443
CalPERS	17,731,314	5,654,216	5,218,656	1,354,118
Total	<u>\$ 47,916,096</u>	<u>\$ 10,307,854</u>	<u>\$ 11,046,977</u>	<u>\$ 3,591,561</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.

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

Benefits Provided

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

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

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

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the District's total contributions were \$2,275,360.

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

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

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 30,184,782
State's proportionate share of net pension liability associated with the District	15,964,422
Total	<u><u>\$ 46,149,204</u></u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.0448 percent and 0.0456 percent, respectively, resulting in a net decrease in the proportionate share of 0.0008 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$2,237,443. In addition, the District recognized pension expense and revenue of \$1,236,624 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,275,360	\$ -
Net change in proportionate share of net pension liability	-	485,098
Difference between projected and actual earnings on pension plan investments	2,378,278	4,838,828
Differences between expected and actual experience in the measurement of the total pension liability	-	504,395
Total	<u>\$ 4,653,638</u>	<u>\$ 5,828,321</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 earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (1,018,373)
2018	(1,018,373)
2019	(1,018,373)
2020	594,569
Total	<u>\$ (2,460,550)</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (164,915)
2018	(164,915)
2019	(164,915)
2020	(164,915)
2021	(164,915)
Thereafter	(164,918)
Total	<u>\$ (989,493)</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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 45,576,671
Current discount rate (7.60%)	30,184,782
1% increase (8.60%)	17,392,880

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

California Public Employees' Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before 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	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the total District contributions were \$1,728,665.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$17,731,314. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.1203 percent and 0.1229 percent, respectively, resulting in a net decrease in the proportionate share of 0.0026 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,354,118. At June 30, 2016, 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	\$ 1,728,665	\$ -
Net change in proportionate share of net pension liability	-	609,880
Difference between projected and actual earnings on pension plan investments	2,912,180	3,519,315
Differences between expected and actual experience in the measurement of the total pension liability	1,013,371	-
Changes of assumptions	-	1,089,461
Total	<u>\$ 5,654,216</u>	<u>\$ 5,218,656</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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (445,060)
2018	(445,060)
2019	(445,060)
2020	728,045
Total	<u>\$ (607,135)</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 Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (285,832)
2018	(285,831)
2019	(114,307)
Total	<u>\$ (685,970)</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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.65%)	\$ 28,859,190
Current discount rate (7.65%)	17,731,314
1% increase (8.65%)	8,477,741

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, which amounted to \$1,458,950 (7.12589 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2016. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Bay Area Community College District Joint Powers Agency (BACCD), Self-Insurance Program for Employees (SIPE), Self-Insured Schools of California (SISC III), and the California Dental Coalition. Each of these entities is a Joint Powers Authorities (JPAs). The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

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

The District has appointed one representative to the Governing Board of BACCD and SIPE.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2016, the District made payments of \$258,851, \$406,641, \$1,927,691, and \$472,313 to the BACCD, SIPE, SISC III, and the California Dental Coalition, respectively.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Litigation

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

Construction Commitments

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

<u>CAPITAL PROJECTS</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
North County Campus Center	\$ 23,347,038	December 31, 2017
San Luis Obispo Campus Instructional Building	14,268,710	December 31, 2017
	<u>\$ 37,615,748</u>	

The projects are funded through a combination of general obligation bonds and capital project apportionments from the California State Chancellor's Office.

REQUIRED SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
February 1, 2012	\$ -	\$ 702,379	\$ 702,379	0%	\$ 34,634,882	2%
February 1, 2014	-	686,145	686,145	0%	34,068,706	2%
February 1, 2016	-	417,031	417,031	0%	35,093,856	1%

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0448%</u>	<u>0.0456%</u>
District's proportionate share of the net pension liability	\$ 30,184,782	\$ 26,654,408
State's proportionate share of the net pension liability associated with the District	<u>15,964,422</u>	<u>16,095,083</u>
Total	<u>\$ 46,149,204</u>	<u>\$ 42,749,491</u>
District's covered - employee payroll	<u>\$ 20,502,511</u>	<u>\$ 20,315,806</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>147.22%</u>	<u>131.20%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.1203%</u>	<u>0.1229%</u>
District's proportionate share of the net pension liability	<u>\$ 17,731,314</u>	<u>\$ 13,948,691</u>
District's covered - employee payroll	<u>\$ 13,149,104</u>	<u>\$ 12,898,243</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>134.848%</u>	<u>108.144%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

	2016	2015
CalSTRS		
Contractually required contribution	\$ 2,275,360	\$ 1,820,623
Contributions in relation to the contractually required contribution	2,275,360	1,820,623
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 21,205,592</u>	<u>\$ 20,502,511</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
CalPERS		
Contractually required contribution	\$ 1,728,665	\$ 1,547,781
Contributions in relation to the contractually required contribution	1,728,665	1,547,781
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 14,591,584</u>	<u>\$ 13,149,104</u>
Contributions as a percentage of covered - employee payroll	<u>11.847%</u>	<u>11.771%</u>

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

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

Schedule of District Contributions

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

Changes in Benefit Terms

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

Changes in Assumptions

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

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2016

The San Luis Obispo County Community College District was established on April 16, 1963, and is comprised of an area of approximately 3,316 square miles located in San Luis Obispo County. There were no changes in the boundaries of the District during the current year. The District's colleges are accredited by the Accrediting Commission for Community and Junior Colleges, 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>
Patrick Mullen	President	2018
Angela Mitchell	Vice President	2016
Richard Hitchman	Member	2016
Barbara George	Member	2016
Pete Sysak	Member	2018
Michael Constable	Student Trustee	2016

ADMINISTRATION

Gilbert H. Stork	President and District Superintendent
Dan Troy	Vice President, Administrative Services
Sandee McLaughlin	Vice President, Student Services and College Centers
Deborah Wulff	Vice President, Academic Affairs

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program (PELL)	84.063		\$ 7,855,423
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		121,068
Federal Financial Aid Administration Allowances	84.063		12,225
Federal College Work Study	84.033		166,346
Federal Direct Student Loans	84.268		3,662,181
Total Student Financial Assistance Cluster			<u>11,817,243</u>
Passed through California Community Colleges Chancellor's Office			
Perkins Career Technical Education Act			
Career and Technical Education (CTE), Title I-C	84.048	15-C01-051	307,066
CTE Transitions	84.048A	15-112-640	45,119
Passed through California Department of Education			
Adult Education and Family Literacy Act	84.002A	15-3905/14508- 6881-00	66,021
English Literacy and Civics Education: Civic Participation, Citizenship Preparation	84.002A	15-3926/14109- 6881-00	38,784
Adult Secondary Education	84.002A	15-3913/13978- 6881-00	2,158
Total U.S. Department of Education			<u>12,276,391</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665		5,198
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Education	64.028		1,980
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Community Colleges Chancellor's Office			
Temporary Assistance to Needy Families (TANF)	93.558	**	52,804
Total Expenditures of Federal Awards			<u>\$ 12,336,373</u>

** Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Adult Ed Block Grant	\$ 790,322	\$ -	\$ 790,322
Adult Ed Block Grant Data and Accountability	130,362	-	130,362
Basic Skills	90,000	71,945	161,945
California Career Pathways	210,000	224,242	434,242
CalWORKs	248,535	-	248,535
Career pathways Improvement-Regional Water/Wastewater	2,000	-	2,000
Sunburst Youth Academy Challenge (SYA) - Even Year	154,679	-	154,679
Sunburst Youth Academy Challenge (SYA) - Odd Year	-	70,392	70,392
Coop Agencies Resources - Educ (CARE)	101,234	-	101,234
CTE Enhancement	355,144	-	355,144
Deputy Sector Navigator	-	98,698	98,698
Deputy Sector Navigator SB 1070	100,000	-	100,000
Deputy Sector Navigator SB 858	-	75,648	75,648
Deputy Sector Navigator SB1402	200,000	-	200,000
Dining Facility Coordinator (DFAC)	32,058	-	32,058
Disabled Students Programs/Svcs (DSPS)	765,260	1,235	766,495
Econ Oppor Program and Svcs (EOPS)	506,709	-	506,709
Equal Employment Opportunity	5,416	-	5,416
Foster and Kinship Care Education (FKCE)	144,161	-	144,161
Foster and Kinship Care Education CSEC	4,750	-	4,750
Grizzly Youth Academy (GYA) Even Year	108,659	-	108,659
Grizzly Youth Academy (GYA) Odd Year	-	55,712	55,712
Institutional Transition Prog	291,357	-	291,357
Instructional Equipment	461,728	-	461,728
Nursing Enrollment Growth & Retent	129,587	-	129,587
Prop 39 Clean Energy Program Improvement Fund	20,266	-	20,266
SB1070 CTE Pathways	4,000	-	4,000
SB1131 Faculty/Staff Development	-	109	109
Student Equity Program	872,744	192,472	1,065,216
Student Financial Aid Admin (BFAP)	357,926	-	357,926
Student Success (Credit)	1,767,943	281,918	2,049,861
Student Success (Non-Credit)	100,541	-	100,541
Successful Launch	146,274	-	146,274
YESS, CA	22,500	-	22,500

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable/(Payable)	Unearned Revenue	Total Revenue	Program Expenditures
\$ 790,322	\$ -	\$ 176,142	\$ 614,180	\$ 614,180
130,362	-	130,362	-	-
161,945	-	75,872	86,073	86,073
434,242	-	264,052	170,190	170,190
228,535	20,000	-	248,535	248,535
1,500	(759)	-	741	741
22,300	36,347	-	58,647	58,647
42,093	-	-	42,093	42,093
101,234	-	-	101,234	101,234
214,144	141,000	27,681	327,463	327,463
98,698	-	-	98,698	98,698
40,000	-	-	40,000	40,000
15,648	60,000	38,208	37,440	37,440
80,000	120,000	-	200,000	200,000
21,016	7,005	-	28,021	28,021
766,495	-	-	766,495	766,495
506,709	(35,792)	40,000	430,917	430,917
5,416	-	-	5,416	5,416
89,569	54,592	-	144,161	144,161
2,500	2,250	-	4,750	4,750
21,756	15,569	-	37,325	37,325
36,008	-	-	36,008	36,008
187,967	44,628	-	232,595	232,595
461,728	-	-	461,728	461,728
119,220	10,367	-	129,587	129,587
-	18,913	-	18,913	18,913
678	645	-	1,323	1,323
109	-	-	109	109
1,065,216	-	258,952	806,264	806,264
357,926	-	-	357,926	357,926
2,049,862	-	582,972	1,466,890	1,466,890
100,541	-	-	100,541	100,541
108,959	37,315	-	146,274	146,274
6,398	16,102	-	22,500	22,500
<u>\$ 8,269,096</u>	<u>\$ 548,182</u>	<u>\$ 1,594,241</u>	<u>\$ 7,223,037</u>	<u>\$ 7,223,037</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

CATEGORIES	** Revised Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2015 only)			
1. Noncredit*	96.23	-	96.23
2. Credit	586.70	-	586.70
B. Summer Intersession (Summer 2016 - Prior to July 1, 2016)			
1. Noncredit*	-	-	-
2. Credit	567.83	-	567.83
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	5,258.95	-	5,258.95
(b) Daily Census Contact Hours	417.88	-	417.88
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	186.82	-	186.82
(b) Credit	224.67	-	224.67
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	687.79	-	687.79
(b) Daily Census Contact Hours	293.13	-	293.13
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	8,320.00	-	8,320.00
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	-	-	-
H. Basic Skills Courses and Immigrant Education			
1. Noncredit*	268.53	-	268.53
2. Credit	192.05	-	192.05
<u>CCFS-320 Addendum</u>			
CDCP Noncredit FTES	173.86	-	173.86
Centers FTES			
1. Noncredit*	54.93	-	54.93
2. Credit	1,259.39	-	1,259.39

* Including Career Development and College Preparation (CDCP) FTES.

** Annual report revised as of November 1, 2016.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

	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	Audited Data	Reported Data	Audit Adjustments	Audited Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 18,374,555	\$ -	\$ 18,374,555	\$ 18,374,555	\$ -	\$ 18,374,555
Other	1300	2,958	-	2,958	2,958	-	2,958
Total Instructional Salaries		18,377,513	-	18,377,513	18,377,513	-	18,377,513
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	4,824,126	-	4,824,126
Other	1400	-	-	-	259,497	-	259,497
Total Noninstructional Salaries		-	-	-	5,083,623	-	5,083,623
Total Academic Salaries		18,377,513	-	18,377,513	23,461,136	-	23,461,136
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	8,992,238	-	8,992,238
Other	2300	-	-	-	421,798	-	421,798
Total Noninstructional Salaries		-	-	-	9,414,036	-	9,414,036
Instructional Aides							
Regular Status	2200	765,994	-	765,994	765,994	-	765,994
Other	2400	104,696	-	104,696	104,696	-	104,696
Total Instructional Aides		870,690	-	870,690	870,690	-	870,690
Total Classified Salaries		870,690	-	870,690	10,284,726	-	10,284,726
Employee Benefits	3000	4,979,933	-	4,979,933	9,244,448	-	9,244,448
Supplies and Material	4000	-	-	-	644,987	-	644,987
Other Operating Expenses	5000	564,218	-	564,218	5,829,111	-	5,829,111
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		24,792,354	-	24,792,354	49,464,408	-	49,464,408

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

	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	Audited Data	Reported Data	Audit Adjustments	Audited Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	75,597	-	75,597
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	8,551	-	8,551
Objects to Exclude							
Rents and Leases	5060	-	-	-	85,745	-	85,745
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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

	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	Audited Data	Reported Data	Audit Adjustments	Audited Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 904,822	\$ -	\$ 904,822
Capital Outlay	6000						
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	1,074,715	-	1,074,715
Total for ECS 84362, 50 Percent Law		\$ 24,792,354	\$ -	\$ 24,792,354	\$ 48,389,693	\$ -	\$ 48,389,693
Percent of CEE (Instructional Salary Cost/Total CEE)		51.23%		51.23%	100.00%		100.00%
50% of Current Expense of Education					\$ 24,194,846		\$ 24,194,846

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Activity Classification	Object Code	Unrestricted			
EPA Proceeds:	8630				\$ 5,165,817
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 5,165,817	\$ -	\$ -	\$ 5,165,817
Total Expenditures for EPA		\$ 5,165,817	\$ -	\$ -	\$ 5,165,817
Revenues Less Expenditures					\$ -

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

Total Fund Balance

General Fund - unrestricted	\$ 8,359,206
General Fund - restricted	1,180,479
Special Revenue Funds	1,217
Capital Project Funds	49,537,042
Debt Service Funds	14,726,247
Enterprise Funds	442,463
Internal Service Funds	<u>312,501</u>

Total Fund Balances

- All District Funds **\$ 74,559,155**

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:	182,665,825
Accumulated depreciation is:	<u>(63,189,006)</u>
Total Capital Assets on the Statement of Net Position	119,476,819
Less fixed assets already recorded in the enterprise funds	<u>(3,015)</u>

 Total Capital Assets Net of Capital Assets of the Enterprise Fund 119,473,804

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (1,283,086)

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. 4,004,025

The net change in proportionate share of net pension liability as the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits. (1,094,978)

The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. (3,067,685)

The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. 508,976

The changes of assumptions are not recognized as an expenditure under the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (1,089,461)

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year end consist of:

General Obligation Bond	\$ 75,000,000	
Unamortized Bond Premium	5,788,075	
2003 Certificates of Participation	860,000	
2009 Certificates of Participation	6,770,000	
Note payable	100,000	
Compensated absences (less amount set up in enterprise funds)	1,241,480	
Compensatory time	53,197	
Net OPEB obligation	388,285	
Load banking	180,281	
Aggregate net pension obligation	47,916,096	\$ (138,297,414)
Total Net Position		<u><u>\$ 53,713,336</u></u>

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

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

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (Part 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Schedule of Expenditures of State Awards

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

Schedule of Workload Measures for State General Apportionment

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

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

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

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

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

Proposition 30 Education Protection Act (EPA) Expenditure Report

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

Reconciliation of Governmental Funds to the Statement of Net Position

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

INDEPENDENT AUDITOR'S REPORTS



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

Board of Trustees
San Luis Obispo County Community College District
San Luis Obispo, 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 San Luis Obispo County Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 21, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated December 21, 2016.

Purpose of This Report

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

Vavrinich, Trina, Day & Co., LLP

Rancho Cucamonga, California
December 21, 2016



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

Board of Trustees
San Luis Obispo County Community College District
San Luis Obispo, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Varrinck, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 21, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
San Luis Obispo County Community College District
San Luis Obispo, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Basis for Qualified Opinion

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Section 424 - State General Apportionment Funding System, Finding 2016-001. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Unmodified Opinion for Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2016, except as described in the State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

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

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

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

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

Vavrinich, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 21, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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>
84.007; 84.033; 84.063; 84.268	Student Financial Assistance Cluster

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>Qualified</u>
Unmodified for all State programs except for the following State program which was qualified:	

<u>Name of State Program</u>
Section 424 - State General
<u>Apportionment Funding System</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

2016-001 SECTION 424 - STATE GENERAL APPORTIONMENT FUNDING SYSTEM

Criteria or Specific Requirement

CCR, Title 5, Sections 58020-24, requires the District to maintain detailed documentation to substantiate the data reported on the "Apportionment Attendance Report" Form CCFS-320. FTES computation must apply the State-established Term Length Multiplier for the particular college.

Condition

The following were noted for the State General Apportionment Funding System:

Daily Contact Hours-Credit was overstated by 275.02 hours

- The District based one class hours on a term length multiplier of 18 rather than the actual number of days, which lead to an overstatement of 36.8 contact hours for the course tested.
- Two courses tested reported the wrong ending time. The District ended two courses at 12:29 pm rather than 12:30 pm and thus overstated their hours by 33.12. Course times are supposed to be based on five-minute increments for starting and ending times.
- One course's hours input was not in alignment with the course schedules. The hours were thus overstated by 205.8.

Positive Attendance-Non Credit was overstated by 1,440.58 hours

- One course tested was improperly claiming FTES for the class tutor's hours, thus overstating hours by 1,038.58.
- One class incorrectly calculated contact hours. Total hours for the class were calculated at 2,584 per the 320 report instead of 2,182 per the class syllabus/outline; thus overstating the hours by 402.

Questioned Costs

The District had six errors noted out of a sample of 75 tested for contact hours, which represents an error rate of eight percent. Thus, if the error rate held over the total population there would be an estimated overstatement of 47.79 FTES.

The District performed a recalculation of all courses to correct this error, as well as, other changes noted which resulted in an actual reduction of approximately 10 FTES.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Context

The District claimed a total of 411.42 FTES for Daily Contact hours and 185.97 Non Credit Hours FTES for a total of 597.39 FTES. The errors noted above combined reflect an overstatement of 1716.30 contact hours.

- Out of 25 daily hour students tested, there were four errors noted.
- Out of 25 positive hours students tested, there were two errors noted.

Effect

By not claiming the correct hours, the District is incorrectly stating their FTES.

Cause

This error appears to have been a result of input errors within the Banner System.

Recommendation

The District should review all data entry related to contact hours in order to prevent any errors from occurring in the future.

Management's Response and Corrective Action Plan

The District was made aware of these issues before the Recalc Apportionment Attendance Report was due. All the errors identified have been corrected and steps have been taken to ensure they won't occur again. Further, in addition to the courses identified above, all other courses that did not end on a five minute increment were truncated to next lower allowable increment. The attendance program used to track student tutor hours was modified so that the tutor's hours and not included in the total student contact hours reported. We determined that a modification was made to the program in Fall 2015 that caused this error. Reports submit prior to Fall 2015 did not include the tutor's hours. The corrected Recalc Apportionment Attendance Report was submitted to the Chancellor's Office on November 1, 2016.

To reduce the possibility of errors in the future, District staff created an edit check report that identifies courses that are not adhering to apportionment regulations. The report verifies the legal number of course hours are met, that partial clock hours are not 50 minutes, that courses are scheduled in five minute blocks, that classes scheduled as weekly attendance meet for the entire term, that daily courses meet for at least five meeting days, that there are at least 16 contact hours per unit, and that no weekly or daily sections have their hours manually overwritten. This edit check report continues to be updated as potential issues are found. Class schedulers and dean's assistants are responsible for running the report as the schedule is built and/or changes are made to the schedule.

The District is in the process of verifying all positive attendance non credit courses and daily attendance courses are coded correctly for the 2016-2017 academic year. The District plans to complete this work by January 31, 2017.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.