

**SAN LUIS OBISPO COUNTY
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2017-2018 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 17 and other required supplementary schedules on pages 66 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vanneth, Tuma, Day & Co, LLP

Rancho Cucamonga, California
December 19, 2018



SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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, 2018 and 2017. 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

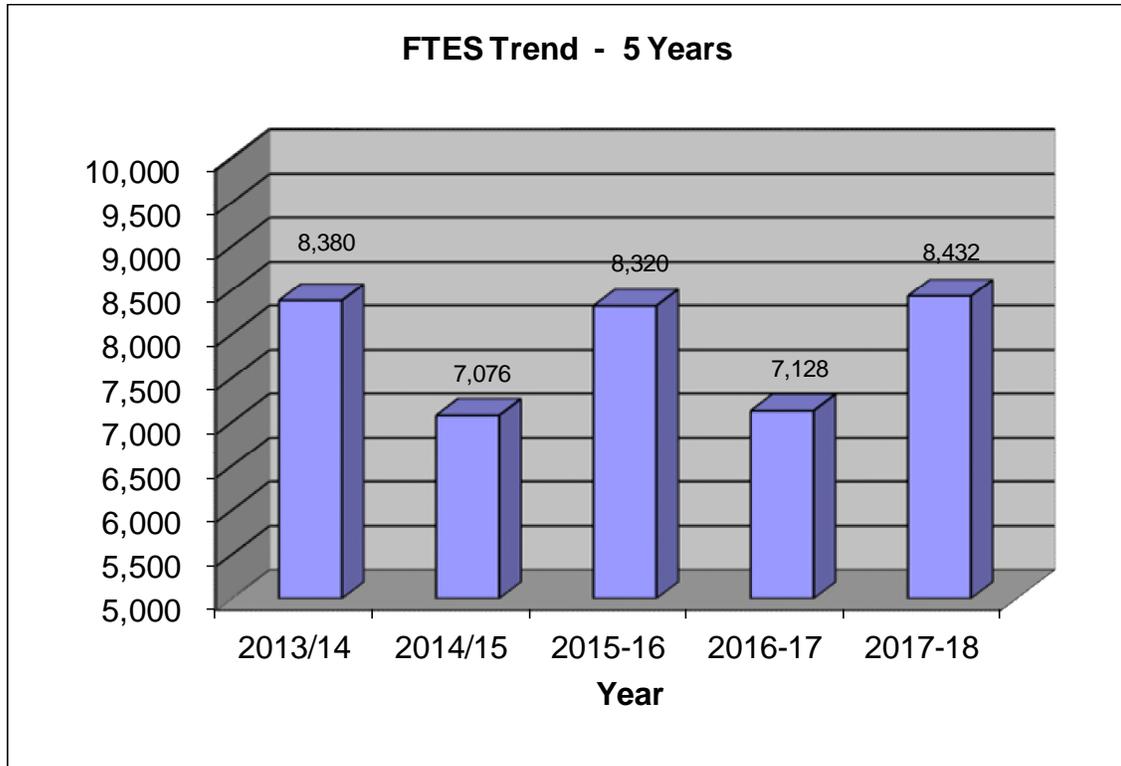
This section provides condensed information for each of the three basic financial statements, as well as illustrative charts, graphs, and tables.

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 2017-2018 and 2016-2017, the District's FTES was 8,432 and 7,128, respectively.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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 2017-2018 as compared to fiscal year 2016-2017:

| <u>Fiscal Year</u> | <u>2018</u> | <u>2017</u> | <u>Difference</u> |
|--------------------------|----------------------|----------------------|---------------------|
| Property tax | \$ 39,810,327 | \$ 38,044,080 | \$ 1,766,247 |
| Enrollment fees | 3,544,036 | 3,790,488 | (246,452) |
| Apportionment | 74,230 | 848,025 | (773,795) |
| Education Protection Act | 5,728,082 | 4,105,298 | 1,622,784 |
| Total | \$ 49,156,675 | \$ 46,787,891 | \$ 2,368,784 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

CONDENSED DISTRICT-WIDE FINANCIAL INFORMATION IS AS FOLLOWS:

**Condensed Statement of Net Position
as of June 30, 2018 and 2017**

Amounts in thousands

| | 2018 | (as restated) 2017 |
|--|-------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash, investments, and short-term receivables | \$ 111,076 | \$ 66,212 |
| Inventory and other assets | 470 | 513 |
| Total Current Assets | <u>111,546</u> | <u>66,725</u> |
| Noncurrent Assets | | |
| Capital assets, net of depreciation | <u>160,132</u> | <u>141,714</u> |
| Total Assets | <u>271,678</u> | <u>208,439</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources related to pensions | <u>18,868</u> | <u>12,394</u> |
| Total Assets and Deferred Outflows | <u>\$ 290,546</u> | <u>\$ 220,833</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 9,804 | \$ 11,112 |
| Unearned revenue | 3,930 | 5,237 |
| Current portion - long-term obligations other than pensions | <u>6,576</u> | <u>8,493</u> |
| Total Current Liabilities | <u>20,310</u> | <u>24,842</u> |
| Noncurrent Liabilities | | |
| Noncurrent portion - long-term obligations other than pensions | 142,134 | 73,928 |
| Aggregate net pension obligation | <u>65,291</u> | <u>56,301</u> |
| Total Noncurrent Liabilities | <u>207,425</u> | <u>130,229</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources related to pensions | <u>5,380</u> | <u>5,470</u> |
| NET POSITION | | |
| Net investment in capital assets | 84,362 | 86,005 |
| Restricted | 21,689 | 15,555 |
| Unrestricted | <u>(48,620)</u> | <u>(41,268)</u> |
| Total Net Position | <u>57,431</u> | <u>60,292</u> |
| Total Liabilities, Deferred Inflows, and Net Position | <u>\$ 290,546</u> | <u>\$ 220,833</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The preceding schedule has been prepared from the District's Statement of Net Position (page 18) 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.

Cash, investments and short-term receivables increased by \$44.8 million while capital assets net of depreciation increased by \$18.4 million. This was primarily due to the District issuing the second series of general obligation bonds of \$73 million in January 2018. Measure L was passed in November 2014; authorizing the District to issue \$275 million in general obligation bonds. The first series of bonds of \$75 million were issued in March 2015. The second series of bonds of \$73 million were issued in January 2018. The District will issue bonds every three years for a total of four issuances. Capital assets improvements made from the first series of bonds 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. Capital asset improvements made from the second series of bonds include construction of the SLO Data Center, North County Early Childhood Education Center, SLO Aquatic Center and 1000 Complex Upgrades, Renovations of the 1000 and 2000 Building Complexes, North County Parking Lot 10 and Monument, and various other projects. 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, 2018

Condensed Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2018 and 2017

Amounts in thousands

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-----------------|
| REVENUES | | |
| Operating Revenues | | |
| Net tuition and fees | \$ 6,331 | \$ 6,692 |
| Total grants and contracts, noncapital | 14,280 | 12,158 |
| Auxiliary sales and charges and other operating revenue | 2,330 | 2,494 |
| Total Operating Revenues | <u>22,941</u> | <u>21,344</u> |
| Operating Expenses | | |
| Salaries and benefits | 59,628 | 51,375 |
| Supplies, maintenance, and other operating expense | 17,957 | 14,447 |
| Student aid | 13,726 | 12,068 |
| Depreciation | 4,065 | 4,106 |
| Total Operating Expenses | <u>95,376</u> | <u>81,996</u> |
| Operating Loss | <u>(72,435)</u> | <u>(60,652)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State apportionments, noncapital | 5,960 | 5,758 |
| Property taxes | 51,263 | 48,603 |
| Federal and State financial aid grants, noncapital | 13,726 | 11,233 |
| State revenues | 3,713 | 836 |
| Investment income | 922 | 432 |
| Interest expense | (4,178) | (2,903) |
| Transfers to/from fiduciary funds | (2,994) | 67 |
| Other nonoperating | 1,620 | 3,147 |
| Total Nonoperating Revenues (Expenses) | <u>70,032</u> | <u>67,173</u> |
| Income (Loss) Before Other Revenues | <u>(2,403)</u> | <u>6,521</u> |
| Other Revenues | | |
| State and local capital income | 345 | 385 |
| Loss on disposal of capital assets | (803) | - |
| Net Change in Net Position | <u>\$ (2,861)</u> | <u>\$ 6,906</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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.

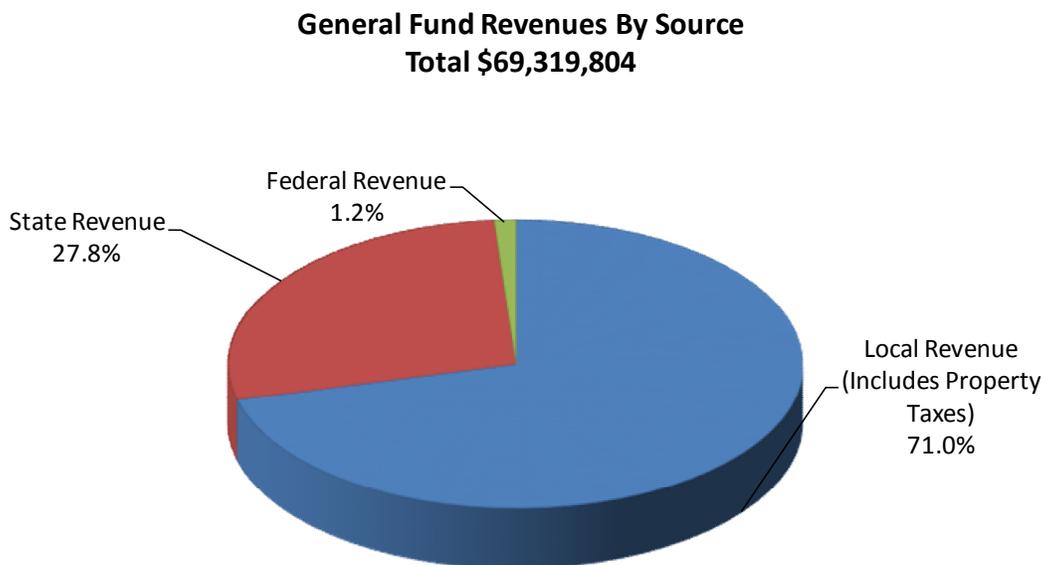
Operating revenues increased by \$1.6 million during fiscal year 2017-2018 as a result of a combination of a net increase in total grants and contracts revenue of \$2.1 million, a decrease of \$361 thousand of net tuition and fees, and lower sales at the college bookstore. Total operating expenditures increased by \$13.3 million. Salaries and benefits increased by \$8.3 million. The increase is primarily due to implementing new GASB standards related to STRS and PERS pension liabilities. This added over \$4.0 million to the District's pension liabilities. In addition, fifteen faculty accepted the District sponsored one-time Supplemental Retirement Plan which resulted in a liability of \$1.1 million. The remainder was due to step/column/longevity salary increases, increases to the District's STRS and PERS contribution rates, and a negotiated salary increase. Supplies, maintenance, and other operating expenses increased by \$3.5 million primarily due to capital expenditures from the second series of general obligation bond funds. Student aid increased by over \$1.7 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

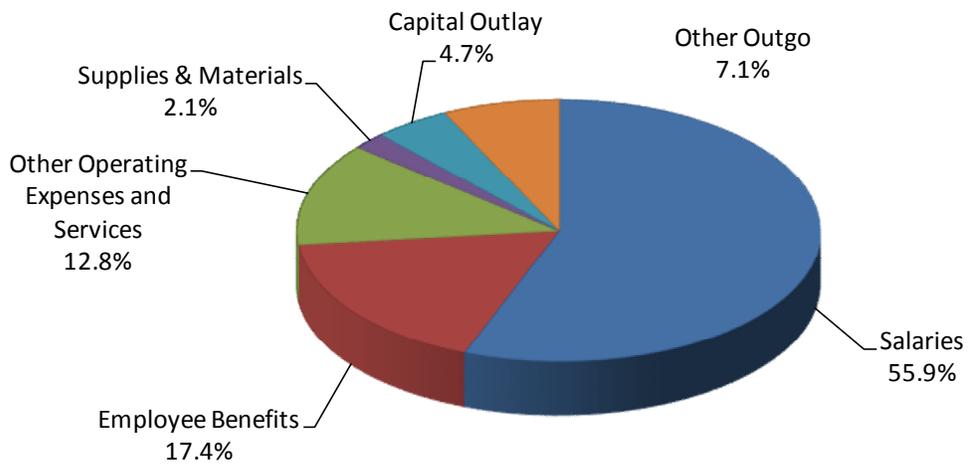
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

General Fund Expenditures by Type

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

General Fund Expenditures by Type
Total \$74,215,858



SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

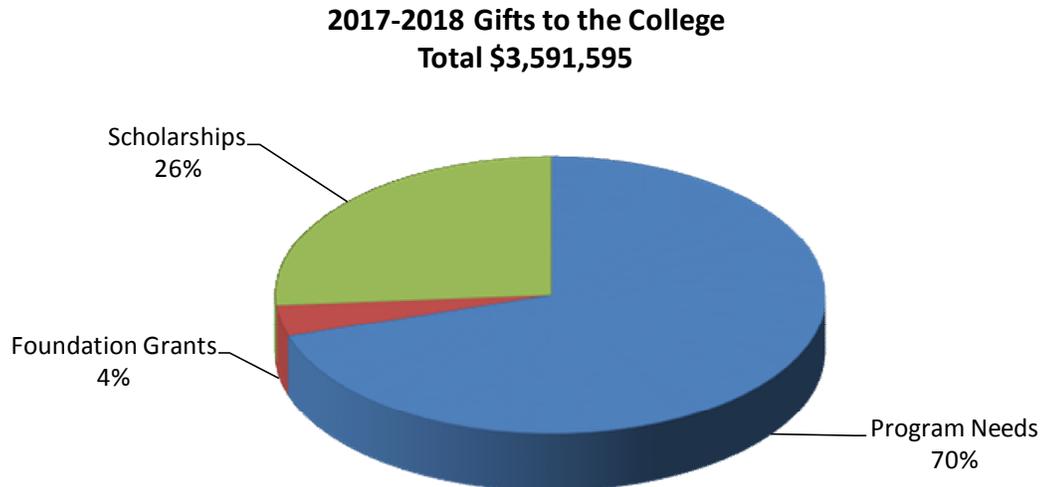
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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, 2018:

| Functional Classifications | Salaries | Employee Benefits | Supplies, Materials, Other Operating Expenses, Services, and Student Aid | Depreciation | Total |
|---|----------------------|----------------------|--|---------------------|----------------------|
| Instructional | \$ 20,654,122 | \$ 8,180,059 | \$ 1,236,932 | \$ - | \$ 30,071,113 |
| Academic support | 2,868,843 | 994,598 | 202,333 | - | 4,065,774 |
| Student services | 7,308,725 | 2,750,076 | 830,299 | - | 10,889,100 |
| Operation and maintenance of plant | 2,018,162 | 1,079,974 | 1,342,036 | - | 4,440,172 |
| Institutional support | 6,979,207 | 3,482,686 | 1,975,107 | - | 12,437,000 |
| Community services and economic development | 548,460 | 134,335 | 174,974 | - | 857,769 |
| Auxiliary operations | 2,070,915 | 558,165 | 627,202 | - | 3,256,282 |
| Student aid | - | - | 13,726,139 | - | 13,726,139 |
| Other outgo | - | - | 11,568,243 | - | 11,568,243 |
| Depreciation | - | - | - | 4,064,612 | 4,064,612 |
| Total | \$ 42,448,434 | \$ 17,179,893 | \$ 31,683,265 | \$ 4,064,612 | \$ 95,376,204 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Condensed Statement of Cash Flows for the Years Ended June 30, 2018 and 2017

Amounts in thousands

| | 2018 | 2017 |
|--|-------------------|------------------|
| Cash Provided by (Used in) | | |
| Operating activities | \$ (64,386) | \$ (67,728) |
| Noncapital financing activities | 59,546 | 75,369 |
| Capital financing activities | 47,801 | (20,845) |
| Investing activities | 495 | 361 |
| Net Change in Cash and Cash Equivalents | 43,456 | (12,843) |
| Cash and Cash Equivalents, Beginning of Year | 62,386 | 75,229 |
| Cash and Cash Equivalents, End of Year | <u>\$ 105,842</u> | <u>\$ 62,386</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, 2018

As of June 30, 2017, 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 2006 Certificates of Participation have been retired, technology upgrades have been identified and prioritized, and construction on the North County Campus Center and SLO Instructional Building have been completed.

The second bond series of \$73 million was issued in January 2018. Projects scheduled for the second issuance include: Data Center Building, Aquatics Center, North County Early Childhood Education Center, building repairs and upgrades, technology upgrades, and retirement of the 2009 Certificates of Participation.

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

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

State Budget Overview

On June 27th, Governor Brown signed SB 840, the Budget Act of 2018. The Budget Act reflects the generally positive trend in State revenues since the passage of Proposition 30 in 2012. While there are revenue gains across all major tax categories, the largest positive revision is to the \$4.4 billion increase in personal income taxes due primarily to capital gains revenues fueled by the 2017 stock market surge.

The Governor's summary cautions that capital gains have proven to be a highly volatile State budget resource over time, and that the Department of Finance anticipates relatively flat gains over the next few years. Further, the Governor notes that other uncertainties facing the State, including the full impacts of Federal tax policy, the return of market volatility, unknown effects of changes to tariffs, and increased global instability. Finally, the Governor reminds that the current economic expansion has gone on four years longer than an average economic recovery, and that while a recession may not necessarily be imminent, it is inevitable.

In total, State General Fund expenditures are estimated at \$138.7 billion, an increase of \$12 billion over the prior year budget. The final budget includes a fund balance of \$3.1 billion and the Rainy Day Fund has grown to \$13.8 billion. Given the uncertainty of the times ahead, the budget largely focuses new revenues on one-time expenditures for infrastructure, mental health, and homelessness.

While total General Fund revenues have increased at a strong clip, these increases have not translated to significant changes in the Proposition 98 minimum guarantee. This is due to flat K12 enrollments, modest changes to per-capita income, and the fact that most of the maintenance factor obligation accumulated in prior years have been paid down. The final budget includes \$78.4 billion in spending for the K14 Proposition 98 guarantee, an increase of \$2.8 billion over the current year.

California Community Colleges

The 2018 Budget Act includes two major reforms for the California Community Colleges:

1) New Funding Formula

In January, the Governor proposed a significant change to the funding formula and provided some modifications to the proposal in the May Revision. Working with the Legislature and college constituent groups, the State arrived at an agreement that will begin phasing the formula into effect as of the 2018-2019 fiscal year.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Through the 2017-2018 fiscal year, community colleges were funded under what is known as the SB 361 model. Each district received a base allocation grant for each college (amounts vary depending on the number of FTES) and State-approved center within the district, but generated the majority of its general apportionment through the amount of FTES served (one rate for credit and enhanced noncredit and a lower rate for noncredit instruction). Since colleges earned additional funding primarily through increasing FTES, the SB 361 was considered a growth model.

The 2018 Budget Act and corresponding trailer legislation enacted the Student-Centered Funding Formula (SCFF). The SCFF moves colleges away from a pure growth model to one based more on performance and student equity. Under the SCFF, approximately 60 percent of the system's general apportionment funding will be based on FTES, with 20 percent based on various success metrics (e.g., number of degree completions, transfers, success in transfer-level math and English courses, etc.) and 20 percent for a supplemental grant based on the number of low-income students (Pell grant recipients, Promise grant recipients, and AB 540 students). Certain FTES will be excluded from the SCFF calculation and funded the same as under the old model, including non-credit, special admits (e.g., dual enrollment), and incarcerated students. Another notable change is that funding for FTES will be calculated on a 3-year average. The formula will be phased in over three years, so FTES will represent 70 percent of the funding in 2018-2019, 65 percent in 2019-2020, and finally 60 percent in 2020-2021 and thereafter. Correspondingly, the performance grants will increase from 10 percent to 20 percent over that timeframe.

To allow for a transition to the new formula, the State has provided a 3-year hold harmless provision. For the 2018-2019, 2019-2020, and 2020-2021 fiscal years, districts will receive the greater of the funding calculated through the SCFF or their 2017-2018 revenues as adjusted by COLA. As of the 2021-2022 year, all districts would be funded through the SCFF.

When fully implemented, the SCFF will have negative impacts on our District's funding. While summer shift is maintained in the SCFF, calculating funded FTES on a 3-year average reduces the benefit of the shift. Also, the District has proportionately fewer students that meet the supplemental grant categories than the State average, so we should expect funding decreases due to that provision. Through the 2020-2021 fiscal year, staff expects the District to be funded under the hold harmless provision, allowing us three years to adjust to the full effect of the SCFF.

2) California Online College

The 2018 Budget Act approved the development of an entirely online college to be administered by the Board of Governors. The focus of the college would be on designing industry credentials that lead to wage gains or promotions, delivered through competency-based instruction. According to the Chancellor's Office, the target group for this instruction is working adults without a postsecondary degree who would benefit from more flexible timeframes to access instruction and other supports than may be typically provided in a standard college classroom timeframe. The budget approved \$120 million for this initiative, \$20 million of which is ongoing.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Other Adjustments

The agreement reached between the Legislature and the Governor include the following:

Ongoing Funds

- COLA of 2.71 percent - \$173.1 million
- Statewide Enrollment Growth (1 percent) - \$59.7 million
- SCFF Formula Increases - \$151.3 million
- Hold Harmless - \$58.7 million
- Full-time Faculty - \$50 million (no detail yet provided on allocations)
- California Promise Program (AB 19) - \$46 million
- Student Success Completion Program - \$40.7 million

Selected One-Time Funds (note that details are often not available until the Chancellor's Office develops guidelines during the year)

- Part-Time Faculty Office Hours - \$50 million
- Online Education Initiative - \$35 million
- Deferred Maintenance and Instructional Equipment - \$28.5 million
- Financial Aid Technology Systems - \$13.5 million
- Legal Services for Undocumented Students - \$10 million
- Mental Health Services - \$10 million
- Hunger-Free Campus Grants - \$10 million
- Veteran Resource Centers - \$2.6 million
- Open Education Resources - \$6 million
- Reentry of Incarcerated Individuals Grant Program - \$5 million

Policy Change

The Budget Act Consolidates the Student Equity Program, the Student Success and Support Program, and the Student Success for Basic Skills Program into one program. Funds are expected to be used in support of student equity plans.

Challenges Ahead for the District

The District will need to plan carefully for the transition to the SCFF in the 2021-2022 year. We continue to see a decline in our core FTES, and the contribution rates for the retirement systems are scheduled to climb for many years. The State has provided base increases of \$552.3 million in recent years and can claim that it has prefunded districts with sufficient funds to address retirement system increases through 2020-2021. There is no guarantee that more increases will be forthcoming.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

To maintain balanced budgets, the District will need to address the following:

- Restrain expenditures and explore alternative revenues to manage the transition to the SCFF
- The decline in FTES which reduces revenues
- Increasing PERS and STRS contribution rates
- Avoid committing one-time revenues for ongoing expenditures
- Maintain prudent reserve and contingency funds
- Account for increases in technology costs and other service needs
- Comply with statutes and regulations (e.g., the 50% Law, Full-Time Faculty Obligation Number)

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, 2018**

ASSETS

Current Assets

| | |
|---------------------------------------|--------------------|
| Cash and cash equivalents | \$ 908,998 |
| Short-term investments - unrestricted | 6,960,748 |
| Short-term investments - restricted | 97,972,350 |
| Accounts receivable | 4,796,906 |
| Student receivables, net | 376,528 |
| Due from fiduciary funds | 60,000 |
| Prepaid expenses | 46,907 |
| Inventories | 398,175 |
| Other current assets | 25,074 |
| Total Current Assets | <u>111,545,686</u> |

Noncurrent Assets

| | |
|---|--------------------|
| Capital Assets | |
| Nondepreciable capital assets | 57,541,880 |
| Depreciable capital assets, net of depreciation | 102,590,087 |
| Total Noncurrent Assets | <u>160,131,967</u> |

| | |
|---------------------|--------------------|
| TOTAL ASSETS | <u>271,677,653</u> |
|---------------------|--------------------|

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--|-------------------|
| Deferred outflows of resources related to pensions | <u>18,868,134</u> |
|--|-------------------|

LIABILITIES

Current Liabilities

| | |
|--|-------------------|
| Accounts payable | 7,462,863 |
| Accrued interest payable | 2,341,278 |
| Unearned revenue | 3,930,163 |
| Current portion of long-term obligations other than pensions | 6,575,962 |
| Total Current Liabilities | <u>20,310,266</u> |

Noncurrent Liabilities

| | |
|---|--------------------|
| Noncurrent portion of long-term obligations other than pensions | 142,134,574 |
| Aggregate net pension obligation | 65,290,614 |
| Total Noncurrent Liabilities | <u>207,425,188</u> |

| | |
|--------------------------|--------------------|
| TOTAL LIABILITIES | <u>227,735,454</u> |
|--------------------------|--------------------|

DEFERRED INFLOWS OF RESOURCES

| | |
|---|------------------|
| Deferred inflows of resources related to pensions | <u>5,379,602</u> |
|---|------------------|

NET POSITION

| | |
|----------------------------------|----------------------|
| Net investment in capital assets | 84,362,367 |
| Restricted for: | |
| Debt service | 19,404,598 |
| Capital projects | 990,770 |
| Educational programs | 1,147,527 |
| Other activities | 145,442 |
| Unrestricted | (48,619,973) |
| TOTAL NET POSITION | <u>\$ 57,430,731</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, 2018**

| | |
|--|----------------------|
| OPERATING REVENUES | |
| Student Tuition and Fees | \$ 10,492,179 |
| Less: Scholarship discounts and allowances | (4,161,459) |
| Net tuition and fees | <u>6,330,720</u> |
| Grants and Contracts, Noncapital | |
| Federal | 941,631 |
| State | 10,195,869 |
| Local | 3,142,496 |
| Total grants and contracts, noncapital | <u>14,279,996</u> |
| Auxiliary Enterprise Sales and Charges | |
| Bookstore | 1,943,794 |
| Other Operating Revenues | 386,549 |
| TOTAL OPERATING REVENUES | <u>22,941,059</u> |
| OPERATING EXPENSES | |
| Salaries | 42,448,434 |
| Employee benefits | 17,179,893 |
| Supplies, materials, and other operating expenses and services | 17,951,359 |
| Equipment, maintenance, and repairs | 5,767 |
| Student financial aid | 13,726,139 |
| Depreciation | 4,064,612 |
| TOTAL OPERATING EXPENSES | <u>95,376,204</u> |
| OPERATING LOSS | <u>(72,435,145)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| State apportionments, noncapital | 5,959,503 |
| Local property taxes, levied for general purposes | 39,575,941 |
| Local property taxes levied for capital debt | 11,687,447 |
| Federal financial aid grants, noncapital | 12,387,012 |
| State financial aid grants, noncapital | 1,339,127 |
| State taxes and other revenues | 3,713,060 |
| Investment income | 743,221 |
| Interest expense on capital related debt | (4,178,025) |
| Investment income on capital asset-related debt | 178,558 |
| Transfer from fiduciary funds | 5,700 |
| Transfer to fiduciary funds | (3,000,000) |
| Other nonoperating revenues | 1,620,260 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>70,031,804</u> |
| LOSS BEFORE OTHER REVENUES | <u>(2,403,341)</u> |
| OTHER REVENUES | |
| State revenues, capital | 250,387 |
| Local revenues, capital | 94,942 |
| Loss on disposal of capital assets | (803,082) |
| TOTAL OTHER REVENUES | <u>(457,753)</u> |
| CHANGE IN NET POSITION | (2,861,094) |
| NET POSITION, BEGINNING OF YEAR, AS RESTATED | <u>60,291,825</u> |
| NET POSITION, END OF YEAR | <u>\$ 57,430,731</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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|----------------------------|
| Tuition and fees | \$ 6,615,718 |
| Federal and State grants and contracts | 13,993,824 |
| Payments of student financial aid | (13,726,139) |
| Payments to vendors for supplies and services | (17,929,515) |
| Payments to or on behalf of employees | (55,670,316) |
| Auxiliary enterprise sales and charges | 2,330,343 |
| Net Cash Flows From Operating Activities | <u>(64,386,085)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|--------------------------|
| State apportionments | 6,816,721 |
| Federal and State financial aid grants | 12,356,500 |
| Property taxes - nondebt related | 39,575,941 |
| State taxes and other apportionments | 3,762,988 |
| Other nonoperating revenues | (2,966,580) |
| Net Cash Flows From Noncapital Financing Activities | <u>59,545,570</u> |

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

| | |
|---|--------------------------|
| Acquisition and construction of capital assets | (26,490,661) |
| Proceeds from capital debt | 80,451,575 |
| State revenue, capital projects | 250,387 |
| Local revenue, capital projects | 94,942 |
| Property taxes - related to capital debt | 11,687,447 |
| Principal paid on capital debt | (15,321,863) |
| Interest paid on capital debt | (3,049,278) |
| Interest received on capital asset-related debt | 178,558 |
| Net Cash Flows From Capital Financing Activities | <u>47,801,107</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|------------------------------------|----------------|
| Interest received from investments | <u>495,205</u> |
|------------------------------------|----------------|

NET CHANGE IN CASH AND CASH EQUIVALENTS

43,455,797

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

62,386,299

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 105,842,096

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, 2018

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

| | |
|---|-------------------------------|
| Operating Loss | <u>\$ (72,435,145)</u> |
| Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities | |
| Depreciation | 4,064,612 |
| Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows | |
| Receivables and student receivables, net | (63,696) |
| Inventories | 89,810 |
| Prepaid expenses and other assets | (46,778) |
| Accounts payable and accrued liabilities | 357,856 |
| Unearned revenue | 62,522 |
| Deferred outflows of resources related to pensions | (6,474,448) |
| Deferred inflows of resources related to pensions | (90,313) |
| Aggregate net pension obligation | 8,989,865 |
| Aggregate net OPEB liability | 3,219 |
| Compensated absences, compensatory time, load banking, and PARS Supplemental Retirement Plan | <u>1,156,411</u> |
| Total Adjustments | <u>8,049,060</u> |
| Net Cash Flows From Operating Activities | <u>\$ (64,386,085)</u> |

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

| | |
|--|------------------------------|
| Cash in banks | \$ 908,998 |
| Cash in County Treasury and money market | <u>104,933,098</u> |
| Total Cash and Cash Equivalents | <u>\$ 105,842,096</u> |

NONCASH TRANSACTIONS

| | |
|---------------------------------|---------------------|
| On behalf payments for benefits | <u>\$ 1,780,125</u> |
|---------------------------------|---------------------|

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

| | <u>Trust Funds</u> | <u>STRS and PERS Investment Trust</u> | <u>Agency Funds</u> |
|---------------------------|------------------------|---|-------------------------|
| ASSETS | | | |
| Investments | \$ 373,263 | \$ 3,039,299 | \$ 292,059 |
| Accounts receivable | 15,857 | - | - |
| Total Assets | <u>389,120</u> | <u>3,039,299</u> | <u>\$ 292,059</u> |
| LIABILITIES | | | |
| Accounts payable | - | - | \$ 168 |
| Due to primary government | 60,000 | - | - |
| Due to student groups | - | - | 291,891 |
| Total Liabilities | <u>60,000</u> | <u>-</u> | <u>\$ 292,059</u> |
| NET POSITION | | | |
| Unrestricted | <u>\$ 329,120</u> | <u>\$ 3,039,299</u> | |

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

| | Trust Funds | STRS and PERS Investment Trust |
|---|------------------------|---|
| ADDITIONS | | |
| Local revenues | \$ 742,008 | \$ 41,180 |
| DEDUCTIONS | | |
| Classified salaries | 12,158 | - |
| Employee benefits | 157 | - |
| Books and supplies | 8,450 | - |
| Services and operating expenditures | 72,830 | |
| Administrative expenses | - | 1,881 |
| Capital outlay | 11,001 | - |
| Total Deductions | 104,596 | 1,881 |
| EXCESS OF REVENUES OVER EXPENSES | 637,412 | 1,881 |
| OTHER FINANCING USES | | |
| Transfer from primary government | - | 3,000,000 |
| Transfers to primary government | (5,700) | - |
| Other uses | (581,105) | - |
| Total Other Financing Uses | (586,805) | 3,000,000 |
| CHANGE IN NET POSITION | 50,607 | 3,039,299 |
| NET POSITION - BEGINNING OF YEAR | 278,513 | - |
| NET POSITION - END OF YEAR | \$ 329,120 | \$ 3,039,299 |

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

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, 2018

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, 2018, is as follows:

Condensed Statement of Net Position

ASSETS

| | |
|-------------|-------------------|
| Investments | <u>\$ 121,391</u> |
|-------------|-------------------|

NET POSITION

| | |
|-----------------|-------------------|
| Restricted for: | |
| Debt services | <u>\$ 121,391</u> |

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

NONOPERATING REVENUES

| | |
|-------------------|-----------------|
| Investment income | <u>\$ 3,448</u> |
|-------------------|-----------------|

EXPENDITURES

| | |
|--|--------------------|
| | <u>(7,530,675)</u> |
|--|--------------------|

TRANSFER IN

| | |
|--|------------------|
| | <u>6,035,788</u> |
|--|------------------|

CHANGE IN NET POSITION

| | |
|--|-------------|
| | (1,491,439) |
|--|-------------|

NET POSITION, BEGINNING OF YEAR

| | |
|--|------------------|
| | <u>1,612,830</u> |
|--|------------------|

NET POSITION, END OF YEAR

| | |
|--|-------------------|
| | <u>\$ 121,391</u> |
|--|-------------------|

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees, noncapital grants and contracts, 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, Federal and State financial aid 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 financial aid grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of 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, 2018, 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 \$2,280,345 for the year ended June 30, 2018.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond the current fiscal year-end.

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 Premiums

Debt premiums 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.

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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

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 government-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 government-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, 2018

Noncurrent Liabilities

Noncurrent liabilities include general obligation bonds, certificates of participation, notes payable, compensated absences, compensatory time, load banking, capital leases, PARS Supplemental Retirement Plan, the aggregate net OPEB liability, 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 government-wide financial statements report \$21,688,337 of restricted net position.

Operating Revenues and Expenses

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

State Apportionments

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

Property Taxes

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.

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, Federal Supplemental Educational Opportunity Grants (FSEOG), 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*.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Estimates

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

Interfund Activity

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

Change in Accounting Principles

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

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

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

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

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

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

New Accounting Pronouncements

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

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

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

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

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

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

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

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

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

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

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

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

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

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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Authorizations

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

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

Authorized Under Debt Agreements

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, 2018, consist of the following:

| | |
|--------------------------------|-----------------------|
| Primary government | \$ 105,842,096 |
| Fiduciary funds | 3,704,621 |
| Total Deposits and Investments | <u>\$ 109,546,717</u> |
| Cash on hand and in banks | \$ 898,998 |
| Cash in revolving | 10,000 |
| Investments | 108,637,719 |
| Total Deposits and Investments | <u>\$ 109,546,717</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 \$105,598,420 with the San Luis Obispo County Investment Pool with a weighted maturity of 389 days. In addition, the District also has an investment of \$3,039,299 in Mutual Funds with Vanguard.

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 Obispo County Investment Pool was rated by Fitch Ratings as AA Af/S1. The Vanguard Mutual Funds were not rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk 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, 2018, the District's bank balance was \$1,014,768. Of this balance, \$299,074 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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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.

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

| Investment Type | Fair Value | Level 1 | Uncategorized |
|--|-----------------------|---------------------|-----------------------|
| | | Inputs | |
| San Luis Obispo County Investment Pool | \$ 104,958,249 | \$ - | \$ 104,958,249 |
| Vanguard Mutual Funds | 3,039,299 | 3,039,299 | - |
| Total | <u>\$ 107,997,548</u> | <u>\$ 3,039,299</u> | <u>\$ 104,958,249</u> |

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - ACCOUNTS RECEIVABLE

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

The accounts receivable are as follows:

| | <u>Primary Government</u> |
|----------------------------------|-------------------------------|
| Federal Government | |
| Categorical aid | \$ 322,616 |
| State Government | |
| Categorical aid | 528,205 |
| Lottery | 306,986 |
| Local Sources | |
| Foundation | 1,592,540 |
| Interest and other local sources | 2,046,559 |
| Total | <u>\$ 4,796,906</u> |
| Student receivables | \$ 2,656,873 |
| Less allowance for bad debt | <u>(2,280,345)</u> |
| Student receivables, net | <u>\$ 376,528</u> |
| | <u>Fiduciary Funds</u> |
| Other local sources | <u>\$ 15,857</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 - CAPITAL ASSETS

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

| | Balance July 1, 2017 | Additions | Deductions | Balance June 30, 2018 |
|---|-------------------------|----------------------|-------------------|--------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 1,216,661 | \$ - | \$ - | \$ 1,216,661 |
| Construction in progress | 35,642,759 | 20,875,233 | 192,773 | 56,325,219 |
| Total Capital Assets Not Being Depreciated | <u>36,859,420</u> | <u>20,875,233</u> | <u>192,773</u> | <u>57,541,880</u> |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 15,230,157 | 444,912 | - | 15,675,069 |
| Buildings and improvements | 141,119,886 | 180,040 | 1,466,201 | 139,833,725 |
| Portable buildings | 833,440 | 1,492,219 | - | 2,325,659 |
| Equipment | 5,000,576 | 154,356 | - | 5,154,932 |
| Technology equipment | 8,246,209 | 196,936 | - | 8,443,145 |
| Furniture and fixtures | 152,442 | - | - | 152,442 |
| Vehicles | 1,566,867 | 134,916 | - | 1,701,783 |
| Total Capital Assets Being Depreciated | <u>172,149,577</u> | <u>2,603,379</u> | <u>1,466,201</u> | <u>173,286,755</u> |
| Total Capital Assets | <u>209,008,997</u> | <u>23,478,612</u> | <u>1,658,974</u> | <u>230,828,635</u> |
| Less Accumulated Depreciation | | | | |
| Land improvements | 13,918,407 | 470,457 | - | 14,388,864 |
| Buildings and improvements | 39,870,480 | 2,794,445 | 663,119 | 42,001,806 |
| Portable buildings | 809,957 | 76,498 | - | 886,455 |
| Equipment | 3,732,525 | 262,832 | - | 3,995,357 |
| Technology equipment | 7,747,341 | 348,205 | - | 8,095,546 |
| Furniture and fixtures | 152,442 | - | - | 152,442 |
| Vehicles | 1,064,023 | 112,175 | - | 1,176,198 |
| Total Accumulated Depreciation | <u>67,295,175</u> | <u>4,064,612</u> | <u>663,119</u> | <u>70,696,668</u> |
| Net Capital Assets | <u>\$ 141,713,822</u> | <u>\$ 19,414,000</u> | <u>\$ 995,855</u> | <u>\$ 160,131,967</u> |

Depreciation expense for the year was \$4,064,612.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 - ACCOUNTS PAYABLE

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

| | <u>Primary Government</u> |
|----------------------------------|-------------------------------|
| Vendor payables | \$ 1,799,039 |
| Apportionment | 410,739 |
| Construction | 3,588,799 |
| Accrued payroll | 688,688 |
| Instructional service agreements | 586,109 |
| Insurance premiums | 389,489 |
| Total | <u>\$ 7,462,863</u> |
| | <u>Fiduciary Funds</u> |
| Other | <u>\$ 168</u> |

NOTE 8 - UNEARNED REVENUE

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

| | <u>Primary Government</u> |
|------------------------------------|-------------------------------|
| State categorical aid | \$ 2,775,444 |
| Student tuition and fees and other | 1,133,137 |
| Other | 21,582 |
| Total | <u>\$ 3,930,163</u> |

NOTE 9 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the primary government 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, 2018, the fiduciary funds owed the primary government \$60,000.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2018 fiscal year, the amount transferred to the primary government from the fiduciary funds amounted to \$5,700, and the amount transferred to the fiduciary funds from the primary government amounted to \$3,000,000.

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

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

| | (as restated) | | | Balance June 30, 2018 | Due in One Year |
|--------------------------------------|-------------------------|----------------------|----------------------|--------------------------|---------------------|
| | Balance July 1, 2017 | Additions | Deductions | | |
| Bonds and Notes Payable | | | | | |
| General Obligation Bond - Series A | \$ 67,095,000 | \$ - | \$ 7,670,000 | \$ 59,425,000 | \$ 6,325,000 |
| General Obligation Bond - Series B | - | 73,000,000 | - | 73,000,000 | - |
| Unamortized Bond Premium | 5,543,508 | 7,451,575 | 363,983 | 12,631,100 | - |
| 2003 Certificates of participation | 600,000 | - | 600,000 | - | - |
| 2009 Certificates of participation | 6,620,000 | - | 6,620,000 | - | - |
| Notes payable | 53,846 | - | 46,154 | 7,692 | 7,692 |
| Total Bonds and Notes Payable | 79,912,354 | 80,451,575 | 15,300,137 | 145,063,792 | 6,332,692 |
| Other Obligations | | | | | |
| Compensated absences | 1,372,926 | 79,308 | - | 1,452,234 | - |
| Compensatory time | 41,054 | - | 657 | 40,397 | - |
| Load banking | 224,185 | - | 26,170 | 198,015 | - |
| Capital leases | 116,481 | - | 21,726 | 94,755 | 22,484 |
| PARS Supplemental Retirement Plan | - | 1,103,930 | - | 1,103,930 | 220,786 |
| Aggregate net OPEB liability | 754,194 | 63,532 | 60,313 | 757,413 | - |
| Aggregate net pension obligation | 56,300,749 | 8,989,865 | - | 65,290,614 | - |
| Total Other Obligations | 58,809,589 | 10,236,635 | 108,866 | 68,937,358 | 243,270 |
| Total Long-Term Obligations | \$ 138,721,943 | \$ 90,688,210 | \$ 15,409,003 | \$ 214,001,150 | \$ 6,575,962 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 by the Other Debt Service Fund. The note payable is paid from resources of the unrestricted General Fund. Compensated absences, compensatory time, the PARS Supplemental Retirement, and the aggregate net pension obligation payments are employee related and are paid in the funds where the employee's payroll is paid. The aggregate net OPEB liability, capital leases, and load banking are paid by the unrestricted 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 and pay off the District's 2009 Certificates of Participation in January 2018.

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, 2018, the principal balance outstanding was \$59,425,000, and the unamortized premium was \$5,298,941. Premiums are amortized over the life of the bonds as a component of interest expense on the bonds.

Election of 2014 General Obligation Bonds, Series B

On January 18, 2018, the District issued the Election of 2014 General Obligation Bonds, Series B in the amount of \$73,000,000. The bonds mature beginning August 1, 2018 through August 1, 2043, with interest rates ranging from 3.00 percent to 5.00 percent. At June 30, 2018, the principal balance outstanding was \$73,000,000, and the unamortized premium was \$7,332,159. 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, 2017 | Issued | Redeemed | Outstanding June 30, 2018 |
| 2/18/2015 | 2014 Series A and A-1 | 8/1/2040 | 2.00% - 5.00% | \$ 75,000,000 | \$ 67,095,000 | \$ - | \$ 7,670,000 | \$ 59,425,000 |
| 1/18/2018 | 2014 Series B | 8/1/2043 | 3.00% - 5.00% | 73,000,000 | - | 73,000,000 | - | 73,000,000 |
| | | | | | <u>\$ 67,095,000</u> | <u>\$ 73,000,000</u> | <u>\$ 7,670,000</u> | <u>\$ 132,425,000</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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The General Obligation Bonds, Series A and Series A-1 mature through 2041 as follows:

| Fiscal Year | Principal | Current Interest to Maturity | Total |
|-------------|---------------|------------------------------------|---------------|
| 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 | 685,000 | 2,209,247 | 2,894,247 |
| 2023 | 805,000 | 2,187,635 | 2,992,635 |
| 2024-2028 | 6,185,000 | 10,368,644 | 16,553,644 |
| 2029-2033 | 11,225,000 | 8,308,875 | 19,533,875 |
| 2034-2038 | 18,200,000 | 4,951,150 | 23,151,150 |
| 2039-2041 | 14,965,000 | 928,099 | 15,893,099 |
| Total | \$ 59,425,000 | \$ 35,797,840 | \$ 95,222,840 |

The General Obligation Bonds, Series B mature through 2044 as follows:

| Year Ending June 30, | Principal | Current Interest to Maturity | Total |
|-------------------------|---------------|------------------------------------|----------------|
| 2019 | \$ - | \$ 3,108,611 | \$ 3,108,611 |
| 2020 | 7,025,000 | 2,959,500 | 9,984,500 |
| 2021 | 7,290,000 | 2,673,200 | 9,963,200 |
| 2022 | 5,525,000 | 2,389,275 | 7,914,275 |
| 2023 | 245,000 | 2,245,025 | 2,490,025 |
| 2024-2028 | 3,300,000 | 10,845,500 | 14,145,500 |
| 2029-2033 | 7,155,000 | 9,566,375 | 16,721,375 |
| 2034-2038 | 12,500,000 | 7,318,275 | 19,818,275 |
| 2039-2043 | 23,000,000 | 4,045,000 | 27,045,000 |
| 2044 | 6,960,000 | 139,200 | 7,099,200 |
| Total | \$ 73,000,000 | \$ 45,289,961 | \$ 118,289,961 |

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, 2018, are as follows:

| | |
|-------------------------|----------|
| Year Ending June 30, | |
| 2019 | \$ 7,692 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Compensated Absences and Compensatory Time

Compensated absences and compensatory time at June 30, 2018, are \$1,452,234 and \$40,397, 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, 2018, is \$198,015.

Capital Leases

The District has entered into a capital lease arrangements for the following:

| | Police Vehicles |
|------------------------|--------------------|
| Balance, July 1, 2017 | \$ 128,955 |
| Payments | 25,791 |
| Balance, June 30, 2018 | <u>\$ 103,164</u> |

The District's liability on lease agreements with option to purchase is summarized below:

| Year Ending June 30, | Lease Payment |
|---|------------------|
| 2019 | \$ 25,791 |
| 2020 | 25,791 |
| 2021 | 25,791 |
| 2022 | 25,791 |
| Total | <u>103,164</u> |
| Less: Amount Representing Interest | <u>(8,409)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 94,755</u> |

Amortization of the leased buildings and equipment under capital lease is included with depreciation expense.

Amortization of the leased equipment under capital lease is included with depreciation expense as follows:

| | |
|--------------------------------|-------------------|
| Vehicles | \$ 142,272 |
| Less: Accumulated Depreciation | <u>(35,567)</u> |
| | <u>\$ 106,705</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

PARS Supplemental Retirement Plan

The District sponsored a one-time Supplemental Retirement Plan for full-time faculty who were employed by the District as of January 10, 2018. To be eligible for early retirement benefits, the employee must have been at least 55 years of age with five or more years of service or at least age 50 with 30 or more years of service as of June 30, 2018, be eligible to retire from CalSTRS or CalPERS, be resigned from District employment effective after the completion of the 2017-2018 academic year, on or before June 30, 2018, and has applied for benefits under the addendum.

The District will fund the supplemental benefits in the form of five annual employer contributions as follows:

| Year Ending June 30, | Payments |
|-------------------------|---------------------|
| 2019 | \$ 220,786 |
| 2020 | 220,786 |
| 2021 | 220,786 |
| 2022 | 220,786 |
| 2023 | 220,786 |
| Total | <u>\$ 1,103,930</u> |

Aggregate Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported an aggregate net OPEB liability and OPEB expense for the following plans:

| <u>OPEB Plan</u> | <u>Aggregate Net OPEB Liability</u> | <u>OPEB Expense</u> |
|--|---|-------------------------|
| District Plan | \$ 452,667 | \$ 34,297 |
| Medicare Premium Payment (MPP) Program | 304,746 | (31,078) |
| Total | <u>\$ 757,413</u> | <u>\$ 3,219</u> |

The details of each plan are as follows:

District Plan

Plan Administration

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

Management of the plan is vested in the District management.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Plan Membership

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

| | |
|---|-------|
| Inactive employees or beneficiaries currently receiving benefits payments | 21 |
| Active employees | 473 |
| | <hr/> |
| | 494 |
| | <hr/> |

Benefits Provided

The Plan allows eligible retirees to purchase healthcare costs at the same rate as active employees. (Implicit rate subsidy) The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2016-2017, the District contributed \$29,235 to the Plan, of which \$29,235 was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of \$452,667 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|--------------|
| Inflation | 2.75 percent |
| Salary increases | 2.75 percent |
| Investment rate of return | 3.50 percent |
| Healthcare cost trend rates | 4.00 percent |

The discount rate was based on the Bond Buyer 20-Bond General Obligation Index.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study as of February 2018.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|------------------------------------|-------------------------|
| Balance at June 30, 2016 | \$ 418,370 |
| Service cost | 48,574 |
| Interest | 14,958 |
| Benefit payments | (29,235) |
| Net change in total OPEB liability | <u>34,297</u> |
| Balance at June 30, 2017 | <u>\$ 452,667</u> |

Changes of assumptions and other inputs reflect a change in the discount rate from 4.50 percent to 3.50 percent since the previous valuation. There were no changes to benefit terms since the previous valuation.

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB 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> | Total OPEB Liability |
|------------------------------|-------------------------|
| 1% decrease (2.5%) | \$ 478,417 |
| Current discount rate (3.5%) | 452,667 |
| 1% increase (4.5%) | 426,013 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

| <u>Healthcare Cost Trend Rates</u> | <u>Total OPEB Liability</u> |
|---|---------------------------------|
| 1% decrease (3.0%) | \$ 432,666 |
| Current healthcare cost trend rate (4.0%) | 452,667 |
| 1% increase (5.0%) | 468,536 |

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

Contributions

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District contributions. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

OPEB Liabilities and OPEB Expense

At June 30, 2018, the District reported a liability of \$304,746 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.0724 percent and 0.0718 percent, respectively, resulting in a net increase in the proportionate share of 0.0006 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of (\$31,078).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

| | | |
|---|---------------------------------------|---------------------------------------|
| Measurement Date | June 30, 2017 | June 30, 2016 |
| Valuation Date | June 30, 2016 | June 30, 2016 |
| Experience Study | July 1, 2010 through June 30, 2016 | July 1, 2010 through June 30, 2015 |
| Actuarial Cost Method | Entry age normal | Entry age normal |
| Investment Rate of Return | 3.58% | 2.85% |
| Medicare Part A Premium Cost Trend Rate | 3.70% | 3.70% |
| Medicare Part B Premium Cost Trend Rate | 4.10% | 4.10% |

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 2, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB 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 OPEB Liability |
|-------------------------------|-----------------------|
| 1% decrease (2.58%) | \$ 337,375 |
| Current discount rate (3.58%) | 304,746 |
| 1% increase (4.58%) | 273,007 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB 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:

| Medicare Costs Trend Rate | Net OPEB Liability |
|---|-----------------------|
| 1% decrease (2.7% Part A and 3.1% Part B) | \$ 275,384 |
| Current Medicare costs trend rate (3.7% Part A and 4.1% Part B) | 304,746 |
| 1% increase (4.7% Part A and 5.1% Part B) | 333,814 |

Aggregate Net Pension Obligation

The District's aggregate net pension obligation for the year ended June 30, 2018, was \$65,290,614. See Note 12 for additional information regarding the District's net pension liability and the employee retirement plans.

NOTE 11 - 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, 2018, 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, 2018

Workers' Compensation

For fiscal year 2017-2018, 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 California Schools Vision Coalition, a Joint Powers Authority.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - 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 the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2018, the District reported the net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

| <u>Pension Plan</u> | <u>Collective Net Pension Liability</u> | <u>Collective Deferred Outflows of Resources</u> | <u>Collective Deferred Inflows of Resources</u> | <u>Collective Pension Expense</u> |
|---------------------|---|--|---|-----------------------------------|
| CalSTRS | \$ 37,001,870 | \$ 9,975,516 | \$ 4,544,685 | \$ 3,221,844 |
| CalPERS | 28,288,744 | 8,892,618 | 834,917 | 4,755,670 |
| Total | <u>\$ 65,290,614</u> | <u>\$ 18,868,134</u> | <u>\$ 5,379,602</u> | <u>\$ 7,977,514</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, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

| | STRP Defined Benefit Program | |
|---|-----------------------------------|--------------------------------|
| | On or before December 31, 2012 | On or after January 1, 2013 |
| Hire date | December 31, 2012 | January 1, 2013 |
| Benefit formula | 2% at 60 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 60 | 62 |
| Monthly benefits as a percentage of eligible compensation | 2.0% - 2.4% | 2.0% - 2.4% |
| Required employee contribution rate | 10.25% | 9.205% |
| Required employer contribution rate | 14.43% | 14.43% |
| Required State contribution rate | 9.328% | 9.328% |

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the District's total contributions were \$2,983,650.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|---|----------------------|
| Total net pension liability, including State share: | |
| District's proportionate share of net pension liability | \$ 37,001,870 |
| State's proportionate share of net pension liability associated with the District | 21,889,994 |
| Total | <u>\$ 58,891,864</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.0400 percent and 0.0403 percent, respectively, resulting in a net decrease in the proportionate share of 0.0003 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$3,221,844. In addition, the District recognized pension expense and revenue of \$2,203,438 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date | \$ 2,983,650 | \$ - |
| Net change in proportionate share of net pension liability | - | 2,913,850 |
| Differences between projected and actual earnings on the pension plan investments | - | 985,463 |
| Differences between expected and actual experience in the measurement of the total pension liability | 136,837 | 645,372 |
| Changes of assumptions | 6,855,029 | |
| Total | <u>\$ 9,975,516</u> | <u>\$ 4,544,685</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 |
|------------------------|--|
| 2019 | \$ (819,252) |
| 2020 | 619,931 |
| 2021 | 89,390 |
| 2022 | (875,532) |
| Total | <u>\$ (985,463)</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|------------------------|--|
| 2019 | \$ 429,619 |
| 2020 | 429,619 |
| 2021 | 429,619 |
| 2022 | 429,621 |
| 2023 | 585,490 |
| Thereafter | 1,128,676 |
| Total | <u>\$ 3,432,644</u> |

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|--|--------------------------|--|
| Global equity | 47% | 6.30% |
| Fixed income | 12% | 0.30% |
| Real estate | 13% | 5.20% |
| Private equity | 13% | 9.30% |
| Absolute Return/Risk Mitigating Strategies | 9% | 2.90% |
| Inflation sensitive | 4% | 3.80% |
| Cash/liquidity | 2% | -1.00% |

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

| Discount Rate | Net Pension Liability |
|-------------------------------|-----------------------|
| 1% decrease (6.10%) | \$ 54,330,493 |
| Current discount rate (7.10%) | 37,001,870 |
| 1% increase (8.10%) | 22,938,519 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

California Public Employees' Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

| | School Employer Pool (CalPERS) | |
|---|-----------------------------------|--------------------------------|
| | On or before December 31, 2012 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 2% at 55 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 55 | 62 |
| Monthly benefits as a percentage of eligible compensation | 1.1% - 2.5% | 1.0% - 2.5% |
| Required employee contribution rate | 7.00% | 6.50% |
| Required employer contribution rate | 15.531% | 15.531% |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the total District contributions were \$2,568,760.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$28,288,744. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.1185 percent and 0.1198 percent, respectively, resulting in a net decrease in the proportionate share of 0.0013 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$4,755,670. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date | \$ 2,568,760 | \$ - |
| Net change in proportionate share of net pension liability | 199,775 | 501,852 |
| Differences between projected and actual earnings on the pension plan investments | 978,598 | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 1,013,469 | - |
| Changes of assumptions | 4,132,016 | 333,065 |
| Total | <u>\$ 8,892,618</u> | <u>\$ 834,917</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, 2018

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

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|------------------------|--|
| 2019 | \$ (26,516) |
| 2020 | 1,129,088 |
| 2021 | 411,904 |
| 2022 | (535,878) |
| Total | <u>\$ 978,598</u> |

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

| Year Ended June 30, | Deferred Outflows of Resources |
|------------------------|--------------------------------------|
| 2019 | \$ 1,396,706 |
| 2020 | 1,735,408 |
| 2021 | 1,378,229 |
| Total | <u>\$ 4,510,343</u> |

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|-------------------------------|--------------------------|--|
| Global equity | 47% | 5.38% |
| Global debt securities | 19% | 2.27% |
| Inflation assets | 6% | 1.39% |
| Private equity | 12% | 6.63% |
| Real estate | 11% | 5.21% |
| Infrastructure and Forestland | 3% | 5.36% |
| Liquidity | 2% | -0.90% |

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

| Discount Rate | Net Pension Liability |
|-------------------------------|-----------------------|
| 1% decrease (6.15%) | \$ 41,621,807 |
| Current discount rate (7.15%) | 28,288,744 |
| 1% increase (8.15%) | 17,227,851 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

CalSTRS/CalPERS Irrevocable Trust

During the 2018 fiscal year, the District established an irrevocable trust for the purpose of funding future employer contributions associated with the CalSTRS and CalPERS pension plans. Funds deposited into this trust are not considered "plan assets" for GASB Statement No. 68 reporting; therefore, the balance of the irrevocable trust is not netted against the net pension liability shown on the Statement of Net Position. The balance and activity of the trust is recorded as a fiduciary fund of the District. For the year ended June 30, 2018, the District contributed a total of \$3,000,000 to the trust. As of June 30, 2018, the balance of the trust was \$3,039,299.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2018, which amounted to \$1,780,125 (9.328 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2018. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of operating revenue and employee benefit expense.

NOTE 13 - 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), the California Dental Coalition, and the California Schools Vision 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, 2018, the District made payments of \$141,695, \$432,150, \$2,094,424, \$542,576, and \$77,742 to the BACCD, SIPE, SISC III, the California Dental Coalition, and the California Schools Vision Coalition, respectively.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 14 - 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, 2018.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

Construction Commitments

As of June 30, 2018, 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 | \$ 1,728,162 | July 31, 2018 |
| San Luis Obispo Campus Instructional Building | 766,363 | July 31, 2018 |
| Early Childhood Educational Building | 1,190,509 | April 30, 2020 |
| Aquatic Center Complex | 6,999,904 | May 31, 2019 |
| 1000 Complex Renovation | 1,190,670 | June 30, 2019 |
| | <u>\$ 11,875,608</u> | |

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

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

| <u>Primary Government</u> | |
|--|----------------------|
| Net Position - Beginning | \$ 60,619,778 |
| Inclusion of net OPEB liability from the adoption of GASB Statement No. 75 | <u>(327,953)</u> |
| Net Position - Beginning, as Restated | <u>\$ 60,291,825</u> |

REQUIRED SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

| | <u>2018</u> |
|--|--------------------------|
| Total OPEB Liability | |
| Service cost | \$ 48,574 |
| Interest | 14,958 |
| Benefit payments | <u>(29,235)</u> |
| Net changes in total OPEB liability | 34,297 |
| Total OPEB Liability - beginning | <u>418,370</u> |
| Total OPEB Liability - ending | <u><u>\$ 452,667</u></u> |
| | |
| Covered-employee payroll | <u>N/A¹</u> |
| | |
| District's total OPEB liability as a percentage of covered-employee payroll | <u>N/A¹</u> |

¹ The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

| | <u>2018</u> |
|--|------------------------|
| Year ended June 30, | |
| District's proportion of the net OPEB liability | <u>0.0724</u> |
| District's proportionate share of the net OPEB liability | <u>\$ 304,746</u> |
| District's covered-employee payroll | <u>N/A¹</u> |
| District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll | <u>N/A¹</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | <u>0.01%</u> |

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

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, 2018**

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| CalSTRS | | |
| District's proportion of the net pension liability | <u>0.0400%</u> | <u>0.0403%</u> |
| District's proportionate share of the net pension liability | \$ 37,001,870 | \$ 32,632,487 |
| State's proportionate share of the net pension liability associated with the District | <u>21,889,994</u> | <u>18,577,093</u> |
| Total | <u>\$ 58,891,864</u> | <u>\$ 51,209,580</u> |
| District's covered-employee payroll | <u>\$ 21,863,394</u> | <u>\$ 21,205,592</u> |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | <u>169.24%</u> | <u>153.89%</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>69%</u> | <u>70%</u> |
| CalPERS | | |
| District's proportion of the net pension liability | <u>0.1185%</u> | <u>0.1198%</u> |
| District's proportionate share of the net pension liability | <u>\$ 28,288,744</u> | <u>\$ 23,668,262</u> |
| District's covered-employee payroll | <u>\$ 14,786,650</u> | <u>\$ 14,591,584</u> |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | <u>191.31%</u> | <u>162.21%</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>72%</u> | <u>74%</u> |

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

See accompanying note to required supplementary information.

| <u>2016</u> | <u>2015</u> |
|----------------------|----------------------|
| <u>0.0448%</u> | <u>0.0456%</u> |
| \$ 30,184,782 | \$ 26,654,408 |
| <u>15,964,422</u> | <u>16,095,083</u> |
| <u>\$ 46,149,204</u> | <u>\$ 42,749,491</u> |
| <u>\$ 20,502,511</u> | <u>\$ 20,315,806</u> |
| <u>147.22%</u> | <u>131.20%</u> |
| <u>74%</u> | <u>77%</u> |
| <u>0.1203%</u> | <u>0.1229%</u> |
| <u>\$ 17,731,314</u> | <u>\$ 13,948,691</u> |
| <u>\$ 13,149,104</u> | <u>\$ 12,898,243</u> |
| <u>134.85%</u> | <u>108.14%</u> |
| <u>79%</u> | <u>83%</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| CalSTRS | | |
| Contractually required contribution | \$ 2,983,650 | \$ 2,750,415 |
| Contributions in relation to the contractually required contribution | <u>2,983,650</u> | <u>2,750,415</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | <u>\$ 20,676,715</u> | <u>\$ 21,863,394</u> |
| Contributions as a percentage of covered-employee payroll | <u>14.43%</u> | <u>12.58%</u> |
| CalPERS | | |
| Contractually required contribution | \$ 2,568,760 | \$ 2,053,570 |
| Contributions in relation to the contractually required contribution | <u>2,568,760</u> | <u>2,053,570</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | <u>\$ 16,539,566</u> | <u>\$ 14,786,650</u> |
| Contributions as a percentage of covered-employee payroll | <u>15.531%</u> | <u>13.888%</u> |

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

See accompanying note to required supplementary information.

| <u>2016</u> | <u>2015</u> |
|------------------|------------------|
| \$ 2,275,360 | \$ 1,820,623 |
| <u>2,275,360</u> | <u>1,820,623</u> |
| <u>\$ -</u> | <u>\$ -</u> |
| | |
| \$ 21,205,592 | \$ 20,502,511 |
| | |
| <u>10.73%</u> | <u>8.88%</u> |

| | |
|------------------|------------------|
| \$ 1,728,665 | \$ 1,547,781 |
| <u>1,728,665</u> | <u>1,547,781</u> |
| <u>\$ -</u> | <u>\$ -</u> |
| | |
| \$ 14,591,584 | \$ 13,149,104 |
| | |
| <u>11.847%</u> | <u>11.771%</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

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

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the Plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

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

Changes of Assumptions - The changes of assumptions and other inputs reflect a change in the discount rate from 4.50 percent to 3.50 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability - MPP program and the Plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

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

Changes of Assumptions - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

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

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

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

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

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2018

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> |
|--------------------|-----------------|---------------------|
| Dr. Barbara George | President | 2020 |
| Patrick Mullen | Vice President | 2018 |
| Angela Mitchell | Member | 2020 |
| Mary Strobridge | Member | 2020 |
| Pete Sysak | Member | 2018 |
| Jordan Jantzen | Student Trustee | 2018 |

ADMINISTRATION

| | |
|----------------------|--|
| Dr. Gilbert H. Stork | President and District Superintendent |
| Dan Troy | Vice President, Administrative Services |
| Dr. Mark Sanchez | Vice President, Student Services and College Centers |
| Dr. Deborah Wulff | Vice President, Academic Affairs |
| Melissa Richerson | Vice President, Human Resources |

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, 2018**

| 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 | 84.063 | | \$ 8,698,305 |
| Federal Pell Administrative Allowance | 84.063 | | 15,668 |
| Federal Supplemental Educational Opportunity Grants (FSEOG) | 84.007 | | 116,132 |
| Federal Work-Study Program | 84.033 | | 88,291 |
| Federal Direct Student Loans | 84.268 | | <u>3,572,575</u> |
| Total Student Financial Assistance Cluster | | | <u>12,490,971</u> |
| Integrating Academics, Support and Technology to Increase Student Success | 84.031A | | 149,570 |
| Passed through California Community Colleges Chancellor's Office | | | |
| Career and Technical Education (CTE), Title I-C | 84.048A | 17-C01-051 | 298,147 |
| CTE Transitions | 84.048A | 17-C01-051 | 41,592 |
| Passed through California Department of Education | | | |
| Adult Basic Education & ELA | 84.002A | 14508 | 67,216 |
| Adult Secondary Education | 84.002 | 13978 | 31,224 |
| English Literacy and Civics Education | 84.002A | 14109 | 63,342 |
| English Literacy and Civics Education | 84.002 | 14750 | <u>30,000</u> |
| Total U.S. Department of Education | | | <u>13,172,062</u> |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Forest Reserve | 10.665 | | 5,888 |
| U.S. DEPARTMENT OF VETERANS AFFAIRS | | | |
| Veterans Education | 64.028 | | 1,274 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through California Community Colleges Chancellor's Office | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | * | 52,054 |
| Foster and Kinship Care Education Program | 93.658 | * | <u>99,613</u> |
| Total U.S. Department of Health and Human Services | | | <u>151,667</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 13,330,891</u> [1] |

[1] The difference between the Schedule of Expenditures of Federal Awards and Federal revenue reported on the Statement of Revenues, Expenses, and Changes in Net Position is due to differences of \$2,248 related to Federal Pell Administrative Allowance.

* 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, 2018**

| Program | Program Entitlements | | |
|--|----------------------|------------|-------------------|
| | Current Year | Prior Year | Total Entitlement |
| Adult Ed Block Grant | \$ 1,329,958 | \$ 216,233 | \$ 1,546,191 |
| Adult Ed Block Grant Data and Accountability | - | 18,823 | 18,823 |
| Basic Skills | 218,109 | 42,821 | 260,930 |
| Basic Skills and Student Outcomes Transformation | 838,837 | 366,457 | 1,205,294 |
| California College AB540 Emergency Grant | 34,043 | - | 34,043 |
| Cal B Student Financial Aid | 730,904 | 1,944 | 732,848 |
| Cal C Student Financial Aid | 49,153 | - | 49,153 |
| California Career Pathways | - | 50,310 | 50,310 |
| CalWORKs | 313,833 | - | 313,833 |
| Campus Safety and Sexual Assault | 18,377 | - | 18,377 |
| Challenge (SYA) Even Year | 37,426 | - | 37,426 |
| Challenge (SYA) Odd Year | 38,874 | - | 38,874 |
| Community College Completion Grant | 157,500 | - | 157,500 |
| Coop Agencies Resources - Educ (CARE) | 112,010 | - | 112,010 |
| CTE Data Unlocked | - | 50,000 | 50,000 |
| Deputy Sector Navigator Mini-Grant | 1,950 | - | 1,950 |
| Deputy Sector Navigator SB 858 | - | 11,952 | 11,952 |
| Deputy Sector Navigator SB1402 | 235,000 | - | 235,000 |
| Disabled Students Progrms/Svcs (DSPS) | 728,425 | 5,354 | 733,779 |
| Econ Oppor Program and Svcs (EOPS) | 430,668 | - | 430,668 |
| Equal Employment Opportunity | 50,000 | - | 50,000 |
| Foster and Kinship Care Education (FKCE) | 122,968 | - | 122,968 |
| Foster and Kinship Care Education CSEC | 6,750 | - | 6,750 |
| Full-Time Student Success Grant | 354,000 | 17,939 | 371,939 |
| FY 17-18 Scheduled Maintenance | 224,474 | - | 224,474 |
| Grizzly (GYA) Odd Year | 35,513 | - | 35,513 |
| Guided Pathways | 220,567 | - | 220,567 |
| Hunger-Free Campus | 17,919 | - | 17,919 |
| Innovation and Effectiveness Program (IEPI) | 200,000 | - | 200,000 |
| Innovation Award | 12,819 | 2,000,000 | 2,012,819 |
| Instructional Equipment | 224,474 | 228,922 | 453,396 |
| John Muir Charter School | 16,920 | - | 16,920 |
| Nursing Enrollment Growth and Retent | 125,500 | - | 125,500 |
| Prop 39 Clean Energy Program Improvement Fund | 727,609 | - | 727,609 |
| South Central Coast Regional Consortium Strong Workforce Regional | 425,176 | - | 425,176 |
| South Coast Region Agricultural Education Consortium California Career Pathways Trust | 14,600 | - | 14,600 |

See accompanying note to supplementary information.

| Program Revenues | | | | |
|------------------|------------------------|---------------------|------------------|-------------------------|
| Cash Received | Accounts Receivable | Unearned Revenue | Total Revenue | Program Expenditures |
| \$ 1,329,958 | \$ - | \$ 69,765 | \$ 1,260,193 | \$ 1,260,193 |
| 18,823 | - | - | 18,823 | 18,823 |
| 260,930 | - | 92,592 | 168,338 | 168,338 |
| 366,457 | 183,548 | - | 550,005 | 550,005 |
| 34,043 | - | - | 34,043 | 34,043 |
| 732,848 | - | 3,295 | 729,553 | 729,553 |
| 49,153 | - | - | 49,153 | 49,153 |
| 50,310 | - | - | 50,310 | 50,310 |
| 305,732 | 8,101 | - | 313,833 | 313,833 |
| 18,377 | - | 14,889 | 3,488 | 3,488 |
| 18,242 | 19,184 | - | 37,426 | 37,426 |
| 38,874 | - | - | 38,874 | 38,874 |
| 157,500 | - | 750 | 156,750 | 156,750 |
| 112,010 | - | - | 112,010 | 112,010 |
| 50,000 | - | - | 50,000 | 50,000 |
| - | 1,950 | - | 1,950 | 1,950 |
| 11,952 | - | - | 11,952 | 11,952 |
| - | 205,983 | - | 205,983 | 205,983 |
| 733,779 | - | - | 733,779 | 733,779 |
| 430,668 | - | - | 430,668 | 430,668 |
| 50,000 | - | - | 50,000 | 50,000 |
| 83,122 | 39,846 | - | 122,968 | 122,968 |
| 4,050 | 2,700 | - | 6,750 | 6,750 |
| 371,832 | - | 2,204 | 369,628 | 369,628 |
| 224,474 | - | - | 224,474 | 224,474 |
| 35,513 | - | - | 35,513 | 35,513 |
| 220,567 | - | 203,817 | 16,750 | 16,750 |
| 17,919 | - | 5,724 | 12,195 | 12,195 |
| 200,000 | - | 40,301 | 159,699 | 159,699 |
| 2,012,819 | - | 1,817,880 | 194,939 | 194,939 |
| 453,396 | - | 36,789 | 416,607 | 416,607 |
| 12,690 | 778 | - | 13,468 | 13,468 |
| 125,500 | - | - | 125,500 | 125,500 |
| 235,645 | - | - | 235,645 | 235,645 |
| 425,176 | - | 208,233 | 216,943 | 216,943 |
| - | 13,977 | - | 13,977 | 13,977 |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

| Program | Program Entitlements | | |
|--|----------------------|------------|-------------------|
| | Current Year | Prior Year | Total Entitlement |
| Self-Empl Pathways in GIG Economy | \$ 15,000 | \$ - | \$ 15,000 |
| San Luis Obispo Partners in Education California Career Pathways Trust | 185,676 | - | 185,676 |
| Strong Workforce | 851,283 | 519,177 | 1,370,460 |
| Student Equity Program | 882,505 | 180,720 | 1,063,225 |
| Student Financial Aid Admin (BFAP) | 304,610 | - | 304,610 |
| Student Success (Credit) | 1,544,191 | 450,603 | 1,994,794 |
| Student Success (Non-Credit) | 112,198 | 14,598 | 126,796 |
| Successful Launch | 135,668 | - | 135,668 |
| Teacher Preparation Program (TPP) | 5,000 | - | 5,000 |
| Veteran's Resource Center | 26,793 | - | 26,793 |
| YESS, CA | 22,500 | - | 22,500 |

See accompanying note to supplementary information.

| Program Revenues | | | | |
|----------------------|------------------------|---------------------|----------------------|-------------------------|
| Cash Received | Accounts Receivable | Unearned Revenue | Total Revenue | Program Expenditures |
| \$ 5,000 | \$ - | \$ 5,000 | \$ - | \$ - |
| - | 13,408 | - | 13,408 | 13,408 |
| 1,370,460 | - | 22,447 | 1,348,013 | 1,348,013 |
| 1,063,225 | - | 52,786 | 1,010,439 | 1,010,439 |
| 304,610 | - | - | 304,610 | 304,610 |
| 1,994,794 | - | 166,729 | 1,828,065 | 1,828,065 |
| 126,796 | - | 2,632 | 124,164 | 124,164 |
| 101,599 | 34,069 | - | 135,668 | 135,668 |
| 3,000 | - | 2,818 | 182 | 182 |
| 26,793 | - | 26,793 | - | - |
| 15,781 | 4,661 | - | 20,442 | 20,442 |
| <u>\$ 14,204,417</u> | <u>\$ 528,205</u> | <u>\$ 2,775,444</u> | <u>\$ 11,957,178</u> | <u>\$ 11,957,178</u> |

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

| CATEGORIES | *Revised Reported Data | Audit Adjustments | Audited Data |
|---|------------------------------|----------------------|-----------------|
| A. Summer Intersession (Summer 2017 only) | | | |
| 1. Noncredit** | 96.55 | - | 96.55 |
| 2. Credit | 539.18 | - | 539.18 |
| B. Summer Intersession (Summer 2018 - Prior to July 1, 2018) | | | |
| 1. Noncredit** | - | - | - |
| 2. Credit | 631.59 | - | 631.59 |
| C. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 4,668.60 | - | 4,668.60 |
| (b) Daily Census Contact Hours | 897.00 | - | 897.00 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit** | 402.37 | - | 402.37 |
| (b) Credit | 49.04 | - | 49.04 |
| 3. Independent Study/Work Experience | | | |
| (a) Weekly Census Contact Hours | 809.68 | - | 809.68 |
| (b) Daily Census Contact Hours | 338.02 | - | 338.02 |
| D. Total FTES | 8,432.03 | - | 8,432.03 |
| SUPPLEMENTAL INFORMATION (Subset of Above Information) | | | |
| E. In-Service Training Courses (FTES) | - | - | - |
| H. Basic Skills Courses and Immigrant Education | | | |
| 1. Noncredit** | 331.80 | - | 331.80 |
| 2. Credit | 114.24 | - | 114.24 |
| <u>CCFS-320 Addendum</u> | | | |
| CDCP Noncredit FTES | 161.71 | - | 161.71 |
| Centers FTES | | | |
| 1. Noncredit** | 114.67 | - | 114.67 |
| 2. Credit | 1,457.12 | - | 1,457.12 |

* Annual report revised as of November 2, 2018.

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

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, 2018**

| | Object/TOP Codes | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|------------------|--|-------------------|-------------------|--|-------------------|-------------------|
| | | Reported Data | Audit Adjustments | Audited Data | Reported Data | Audit Adjustments | Audited Data |
| <u>Academic Salaries</u> | | | | | | | |
| Instructional Salaries | | | | | | | |
| Contract or Regular | 1100 | \$ 10,310,028 | \$ - | \$ 10,310,028 | \$ 10,310,028 | \$ - | \$ 10,310,028 |
| Other | 1300 | 7,715,072 | - | 7,715,072 | 7,715,072 | - | 7,715,072 |
| Total Instructional Salaries | | 18,025,100 | - | 18,025,100 | 18,025,100 | - | 18,025,100 |
| Noninstructional Salaries | | | | | | | |
| Contract or Regular | 1200 | - | - | - | 4,801,148 | - | 4,801,148 |
| Other | 1400 | - | - | - | 494,468 | - | 494,468 |
| Total Noninstructional Salaries | | - | - | - | 5,295,616 | - | 5,295,616 |
| Total Academic Salaries | | 18,025,100 | - | 18,025,100 | 23,320,716 | - | 23,320,716 |
| <u>Classified Salaries</u> | | | | | | | |
| Noninstructional Salaries | | | | | | | |
| Regular Status | 2100 | - | - | - | 9,700,819 | - | 9,700,819 |
| Other | 2300 | - | - | - | 296,372 | - | 296,372 |
| Total Noninstructional Salaries | | - | - | - | 9,997,191 | - | 9,997,191 |
| Instructional Aides | | | | | | | |
| Regular Status | 2200 | 730,436 | - | 730,436 | 730,436 | - | 730,436 |
| Other | 2400 | 207,853 | - | 207,853 | 207,853 | - | 207,853 |
| Total Instructional Aides | | 938,289 | - | 938,289 | 938,289 | - | 938,289 |
| Total Classified Salaries | | 938,289 | - | 938,289 | 10,935,480 | - | 10,935,480 |
| Employee Benefits | 3000 | 5,662,339 | - | 5,662,339 | 10,915,787 | - | 10,915,787 |
| Supplies and Material | 4000 | - | - | - | 549,642 | - | 549,642 |
| Other Operating Expenses | 5000 | 878,987 | - | 878,987 | 6,185,821 | - | 6,185,821 |
| Equipment Replacement | 6420 | - | - | - | 1,234 | - | 1,234 |
| Total Expenditures Prior to Exclusions | | 25,504,715 | - | 25,504,715 | 51,908,680 | - | 51,908,680 |

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, 2018

| | Object/TOP Codes | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|------------------|--|-------------------|--------------|--|-------------------|--------------|
| | | Reported Data | Audit Adjustments | 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 | - | - | - | 108,660 | - | 108,660 |
| Noninstructional Staff - Retirees' Benefits and Retirement Incentives | 6740 | - | - | - | 7,002 | - | 7,002 |
| Objects to Exclude | | | | | | | |
| Rents and Leases | 5060 | - | - | - | 112,738 | - | 112,738 |
| 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, 2018**

| | Object/TOP Codes | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|------------------|--|-------------------|---------------|--|-------------------|---------------|
| | | Reported Data | Audit Adjustments | Audited Data | Reported Data | Audit Adjustments | Audited Data |
| Other Operating Expenses and Services | 5000 | \$ - | \$ - | \$ - | \$ 962,947 | \$ - | \$ 962,947 |
| Capital Outlay | 6000 | | | | | | |
| Library Books | 6300 | - | - | - | - | - | - |
| Equipment | 6400 | - | - | - | - | - | - |
| Equipment - Additional | 6410 | - | - | - | - | - | - |
| Equipment - Replacement | 6420 | - | - | - | - | - | - |
| Total Equipment | | - | - | - | - | - | - |
| Total Capital Outlay | | - | - | - | - | - | - |
| Other Outgo | 7000 | - | - | - | - | - | - |
| Total Exclusions | | - | - | - | 1,191,347 | - | 1,191,347 |
| Total for ECS 84362, 50 Percent Law | | \$ 25,504,715 | \$ - | \$ 25,504,715 | \$ 50,717,333 | \$ - | \$ 50,717,333 |
| Percent of CEE (Instructional Salary Cost/Total CEE) | | 50.29% | | 50.29% | 100.00% | | 100.00% |
| 50% of Current Expense of Education | | | | | \$ 25,358,666 | | \$ 25,358,666 |

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

| Activity Classification | Object Code | | | | Unrestricted |
|-----------------------------------|----------------------|--|---|----------------------------------|---------------------|
| EPA Revenue: | 8630 | | | | \$ 5,728,082 |
| Activity Classification | Activity Code | Salaries and Benefits (Obj 1000-3000) | Operating Expenses (Obj 4000-5000) | Capital Outlay (Obj 6000) | Total |
| Instructional Activities | 1000-5900 | \$ 5,728,082 | - | - | \$ 5,728,082 |
| Total Expenditures for EPA | | \$ 5,728,082 | - | - | \$ 5,728,082 |
| 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, 2018**

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

Total Fund Balance

| | | |
|-----------------------------|----------------|-----------------------|
| General Fund - unrestricted | \$ 6,547,820 | |
| General Fund - restricted | 1,147,527 | |
| Special Revenue Funds | 126,067 | |
| Capital Project Funds | 70,379,717 | |
| Debt Service Funds | 21,745,876 | |
| Enterprise Funds | 35,640 | |
| Internal Service Funds | <u>145,442</u> | |
| Total Fund Balances | | \$ 100,128,089 |

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: | 230,828,635 | |
| Accumulated depreciation is: | <u>(70,696,668)</u> | |
| Total Capital Assets on the Statement of Net Position | 160,131,967 | |
| Less fixed assets already recorded in the enterprise funds | <u>(2,292)</u> | |
| Total Capital Assets Net of Capital Assets of the Enterprise Fund | | 160,129,675 |

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. (2,341,278)

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds.

Deferred outflows of resources related to pensions at year-end consist of:

| | | |
|--|-------------------|------------|
| Pension contributions subsequent to measurement date | 5,552,410 | |
| Net change in proportionate share of net pension liability | 199,775 | |
| Differences between projected and actual earnings on pension plan investments | 978,598 | |
| Differences between expected and actual experience in the measurement of the total pension liability | 1,150,306 | |
| Changes of assumptions | <u>10,987,045</u> | |
| Total Deferred Outflows of Resources Related to Pensions | | 18,868,134 |

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, 2018**

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:

| | | |
|--|------------------|----------------|
| Net change in proportionate share of net pensions liability | \$ (3,415,702) | |
| Differences between projected and actual earnings on pension plan investments | (985,463) | |
| Differences between expected and actual experience in the measurement of the total pension liability | (645,372) | |
| Changes of assumptions | <u>(333,065)</u> | |
| Total Deferred Inflows of Resources Related to Pensions | | \$ (5,379,602) |

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 Bonds | 132,425,000 | |
| Unamortized Bond Premium | 12,631,100 | |
| Note payable | 7,692 | |
| Compensated absences (less amount set up in enterprise funds) | 1,425,371 | |
| Compensatory time | 40,397 | |
| Load banking | 198,015 | |
| Capital leases | 94,755 | |
| PARS supplemental retirement plan | 1,103,930 | |
| Aggregate net OPEB liability | 757,413 | |
| Aggregate net pension obligation | <u>65,290,614</u> | <u>(213,974,287)</u> |
| Total Net Position | | <u>\$ 57,430,731</u> |

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

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

Schedule of Expenditures of Federal Awards

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

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 Annual (Actual) Attendance

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

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

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

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

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

Proposition 30 Education Protection Account (EPA) Expenditure Report

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Reconciliation of Governmental Funds to the Statement of Net Position

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

INDEPENDENT AUDITOR'S REPORTS



**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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Vanneth, Tuma, Day & Co, LLP

Rancho Cucamonga, California
December 19, 2018



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

Board of Trustees
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, 2018. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001. Our opinion on each major Federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and/or corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be significant deficiencies.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and/or corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Varunesh, Tinnu, Day & Co, LLP

Rancho Cucamonga, California
December 19, 2018



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 2017-2018 California Community Colleges Chancellor's Office *District Audit Manual* that could have a direct and material effect on each of the District's State programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the 2017-2018 California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the State programs noted below that were audited for the year ended June 30, 2018.

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

| | |
|-------------|---|
| Section 421 | Salaries of Classroom Instructors (50 Percent Law) |
| Section 423 | Apportionment for Instructional Service Agreements/Contracts |
| Section 424 | State General Apportionment Funding System |
| Section 425 | Residency Determination for Credit Courses |
| Section 426 | Students Actively Enrolled |
| Section 427 | Dual Enrollment (CCAP and Non-CCAP) |
| Section 428 | Student Equity |
| Section 429 | Student Success and Support Program (SSSP) Funds |
| Section 430 | Scheduled Maintenance Program |
| Section 431 | Gann Limit Calculation |
| Section 435 | Open Enrollment |
| Section 439 | Proposition 39 Clean Energy Fund |
| Section 440 | Intersession Extension Programs |
| Section 444 | Apprenticeship Related and Supplemental Instruction (RSI) Funds |
| Section 475 | Disabled Student Programs and Services (DSPS) |
| Section 479 | To Be Arranged Hours (TBA) |
| Section 490 | Proposition 1D and 51 State Bond Funded Projects |
| Section 491 | Education Protection Account Funds |

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

The District reports no Apprenticeship Related and Supplemental Instruction (RSI) Funds programs for Funding; therefore, the compliance tests within this section were not applicable.

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

Vaughan, Tuma, Day & Co, LLP

Rancho Cucamonga, California
December 19, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

| | |
|--|-------------------|
| Internal control over major Federal programs: | |
| Material weaknesses identified? | <u>No</u> |
| Significant deficiencies identified? | <u>Yes</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>Yes</u> |
| Identification of major Federal programs: | |

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

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

STATE AWARDS

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

2018-001 Special Test and Provisions - Return of Title IV

Program Name: Student Financial Assistance Cluster
CFDA Number: 84.007, 84.033, 84.063, 84.268
Direct funded by the U.S. Department of Education (ED)
Federal Agency: U.S. Department of Education (ED)

Criteria or Specific Requirement

34 CFR Section 668.173(b):

Return of Title IV funds are required to be deposited or transferred into the Student Financial Assistance (SFA) account or electronic funds transfer initiated to ED as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew, or the date on the cancelled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

Condition

Significant Deficiency - The District's portion of the Return to Title IV funds were not returned within the 45 day requirement.

Questioned Costs

There are no questioned costs associated with this finding. The District did return the funds; however, they were not returned within the 45 day requirement.

Context

The District performed approximately 420 Return to Title IV calculations during the 2017-2018 year. There was one instance out of forty tested where the District's portion of the Return to Title IV funds were not returned within the 45 day requirement.

Effect

Without proper monitoring of Title IV returns, the District is at risk of noncompliance with the above referenced criteria.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Cause

The District's internal controls associated with the Return to Title IV procedures failed to ensure that all required funds were returned in a timely manner.

Repeat Finding: No

Recommendation

The District should strengthen procedures to ensure that the Return to Title IV funds occurs within 45 days from the date the District determines the student withdrew from all classes.

Corrective Action Plan

The District concurs. Pell awards are automatically calculated and the system indicates if the student is eligible for a post withdrawal disbursement. However, the student in question was an incarcerated Second Chance Pell student. Incarcerated Second Chance Pell students are not eligible for a withdrawal disbursement and must be adjusted manually. In this case the manual adjustment did not happen within the 45 day requirement.

In order to ensure that funds are returned within the 45 day timeframe, protocols have been put in place to calculate Return to Title IV every two weeks rather than past practice of every four weeks. This gives the Financial Aid Director time to verify that the funds are returned for each student a week after the process is run.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.