

**SAN LUIS OBISPO COUNTY
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2017

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of San Luis Obispo County Community College District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2016-2017 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 16, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 63, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 64, and the Schedule of District Contributions on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vaughan, Tuma, Day & Co, LLP

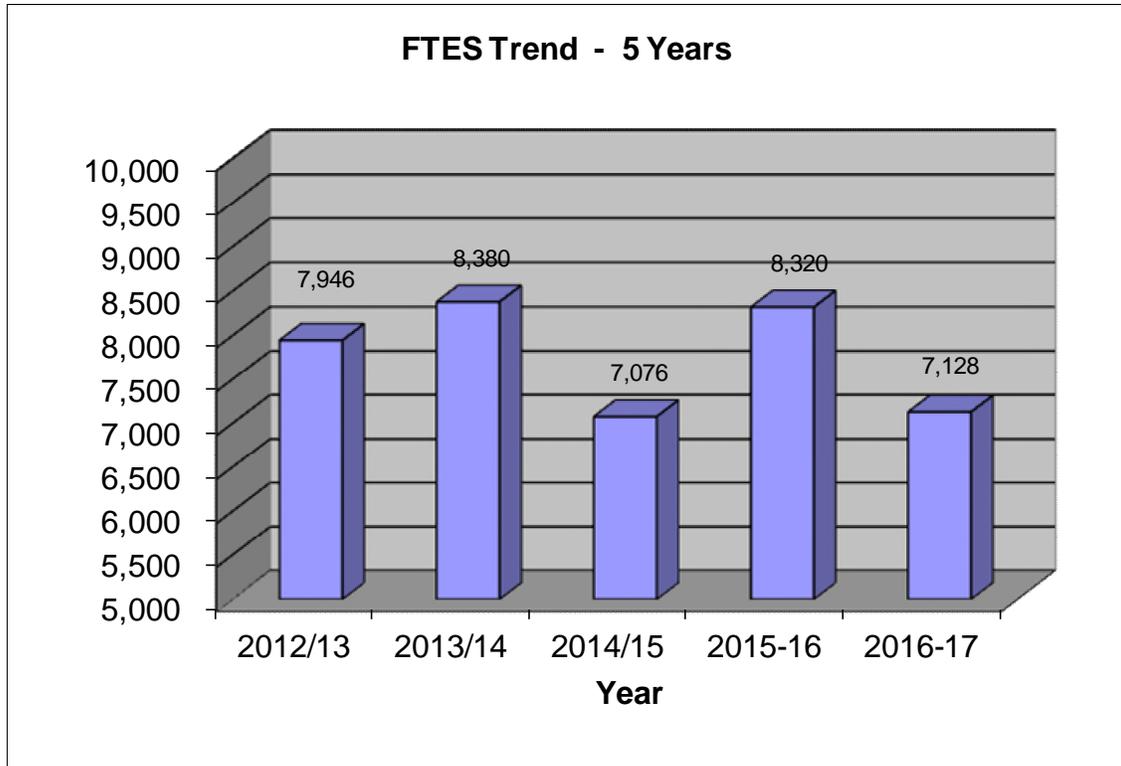
Rancho Cucamonga, California
December 21, 2017

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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 2016-2017 as compared to fiscal year 2015-2016:

<u>Fiscal Year</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Property Tax	\$ 38,044,080	\$ 35,391,873	\$ 2,652,207
Enrollment Fees	3,790,488	3,914,173	(123,685)
Apportionment	848,025	1,719,485	(871,460)
Education Protection Act	4,105,298	5,165,817	(1,060,519)
Totals	<u>\$ 46,787,891</u>	<u>\$ 46,191,348</u>	<u>\$ 596,543</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

CONDENSED DISTRICT-WIDE FINANCIAL INFORMATION IS AS FOLLOWS:

**Condensed Statement of Net Position
as of June 30, 2017 and 2016**

Amounts in thousands

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash, investments, and short-term receivables	\$ 66,212	\$ 81,028
Inventory and other assets	513	589
Total Current Assets	<u>66,725</u>	<u>81,617</u>
Noncurrent Assets		
Capital assets, net of depreciation	141,714	119,477
Total Assets	<u>208,439</u>	<u>201,094</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	12,394	10,308
Total Assets and Deferred Outflows	<u>\$ 220,833</u>	<u>\$ 211,402</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 11,112	\$ 5,467
Unearned revenue	5,237	2,836
Current portion - long-term obligations other than pensions	8,493	8,361
Total Current Liabilities	<u>24,842</u>	<u>16,664</u>
Noncurrent Liabilities		
Noncurrent portion - long-term obligations other than pensions	73,600	82,062
Aggregate net pension obligation	56,301	47,916
Total Noncurrent Liabilities	<u>129,901</u>	<u>129,978</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	<u>5,470</u>	<u>11,047</u>
NET POSITION		
Net investment in capital assets	86,005	79,991
Restricted	15,555	15,128
Unrestricted	(40,940)	(41,406)
Total Net Position	<u>60,620</u>	<u>53,713</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 220,833</u>	<u>\$ 211,402</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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

Cash, investments and short-term receivables decreased by \$14.8 million while capital assets net of depreciation increased by \$22.2 million. This was due to the passage of Measure L in November 2014. Measure L approved the District to issue \$275 million in general obligation bonds. The first series of bonds of \$75 million were issued in March 2015. The District will issue bonds every three years for a total of four issuances. Capital assets improvements made 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. 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, 2017

Condensed Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2017 and 2016

Amounts in thousands

	<u>2017</u>	<u>2016</u>
REVENUES		
Operating Revenues		
Tuition and fees	\$ 6,692	\$ 6,626
Auxiliary sales and charges	2,494	2,676
Total Operating Revenues	<u>9,186</u>	<u>9,302</u>
Operating Expenses		
Salaries and benefits	51,375	51,322
Supplies, maintenance, and other operating expense	14,447	18,557
Student aid	12,068	12,385
Depreciation	4,106	3,770
Total Operating Expenses	<u>81,996</u>	<u>86,034</u>
Operating Loss	<u>(72,810)</u>	<u>(76,732)</u>
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	5,758	7,456
Grants and contracts	19,895	20,649
Property taxes	48,603	44,355
State revenues	4,332	7,063
Investment income	361	405
Interest expense	(2,903)	(3,489)
Other nonoperating	3,285	3,095
Total Nonoperating Revenues (Expenses)	<u>79,331</u>	<u>79,534</u>
Income Before Other Revenues	<u>6,521</u>	<u>2,802</u>
Other Revenues		
State and local capital income	<u>385</u>	<u>274</u>
Net Change in Net Position	<u>\$ 6,906</u>	<u>\$ 3,076</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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

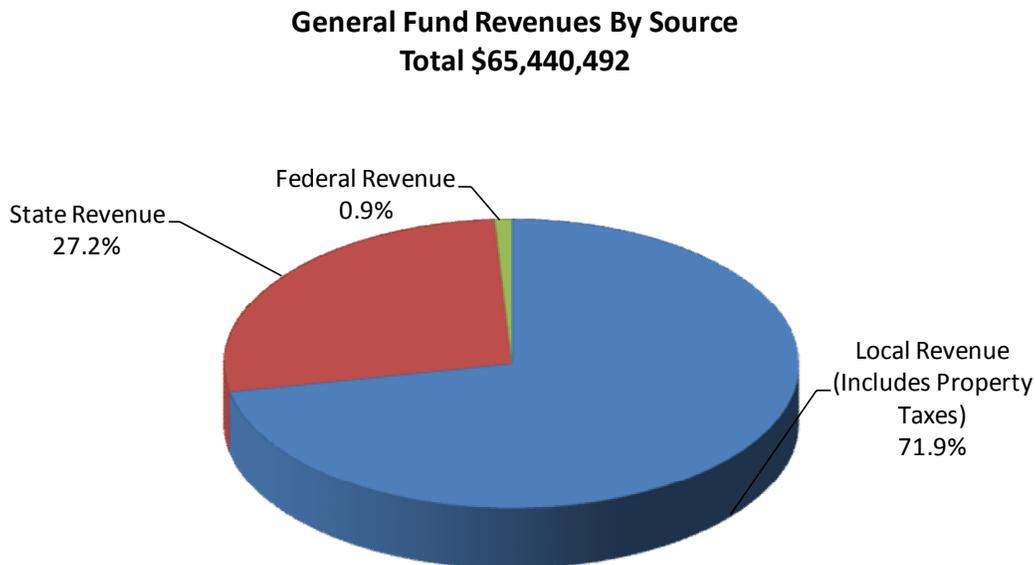
Operating revenues decreased by over \$116 thousand during fiscal year 2016-2017 as a result of less student tuition and fees collected and lower sales at the bookstore. Both of these declines are due to lower enrollment. Total operating expenditures decreased by \$4.0 million. Salaries and benefits increased by \$53 thousand. This was due to negotiated salary increases and increased employer costs for STRS and PERS retirement systems. Supplies, maintenance, and other operating expenses decreased by \$4.1 million primarily due to lower capital expenditures of general obligation bond funds. Student aid decreased by over \$317 thousand.

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

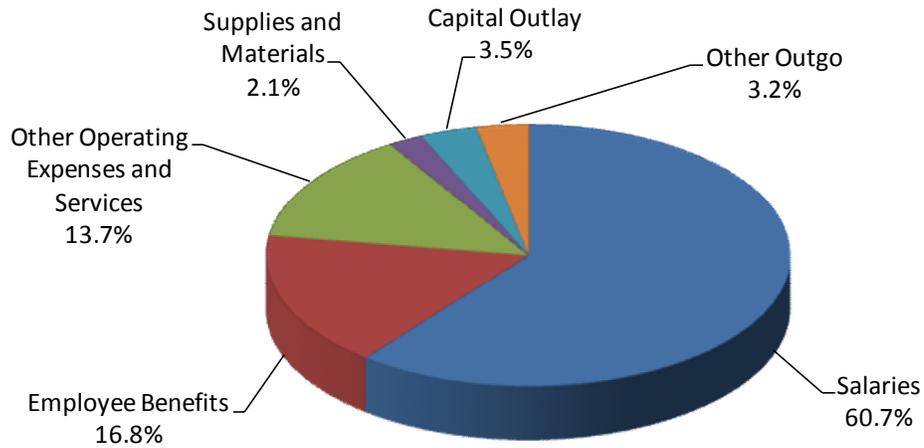
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

General Fund Expenditures by Type

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

General Fund Expenditures by Type
Total \$65,309,807



SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

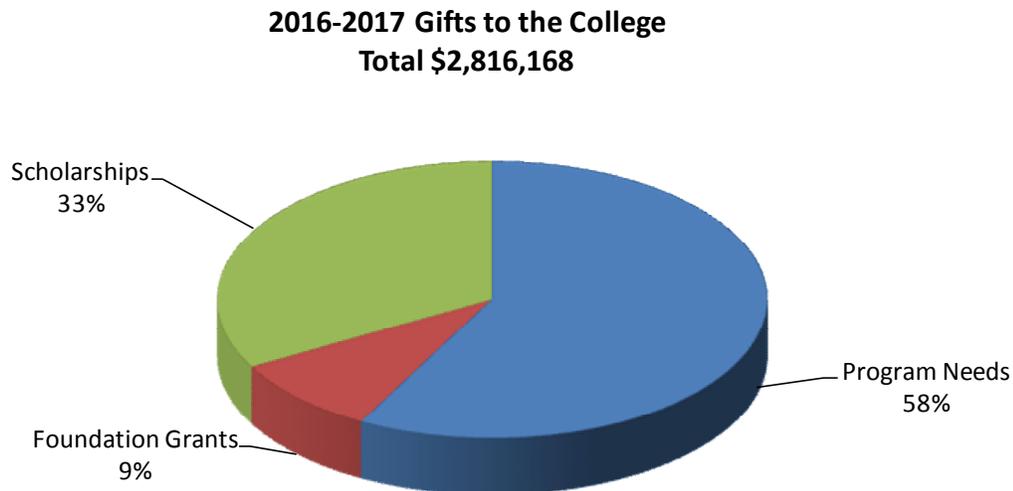
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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, 2017:

Functional Classifications	Salaries	Employee Benefits	Supplies, Materials, Other Operating Expenses and Services	Depreciation and Amortization	Total
Instruction	\$ 20,177,538	\$ 5,069,416	\$ 1,952,169	\$ -	\$ 27,199,123
Academic Support	2,835,753	630,393	387,547	-	3,853,693
Student Services	6,519,254	1,698,698	1,684,319	-	9,902,271
Operation and Maintenance of Plant	1,945,448	645,072	2,782,682	-	5,373,202
Institutional Support	6,488,538	2,054,114	3,777,772	-	12,320,424
Community Services and Economic Development	559,263	92,641	358,716	-	1,010,620
Auxiliary Operations	2,132,720	525,431	2,695,457	-	5,353,608
Student Aid	-	-	12,068,231	-	12,068,231
Other Outgo	-	-	808,297	-	808,297
Depreciation	-	-	-	4,106,169	4,106,169
	<u>\$ 40,658,514</u>	<u>\$ 10,715,765</u>	<u>\$ 26,515,190</u>	<u>\$ 4,106,169</u>	<u>\$ 81,995,638</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Condensed Statement of Cash Flows for the Years Ended June 30, 2017 and 2016

Amounts in thousands

	2017	2016
Cash Provided by (Used in)		
Operating activities	\$ (67,728)	\$ (73,231)
Noncapital financing activities	75,369	80,922
Capital financing activities	(20,845)	(11,391)
Investing activities	361	405
Net Change in Cash and Cash Equivalents	(12,843)	(3,295)
Cash and Cash Equivalents, Beginning of Year	75,229	78,524
Cash and Cash Equivalents, End of Year	<u>\$ 62,386</u>	<u>\$ 75,229</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, 2017

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 Buildings is nearing completion. Both buildings are scheduled to be completed in Spring 2018.

The second bond series of \$72 million is scheduled to be 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 AB 97, formally approving the State's Budget Act of 2017. The State's 2017 Budget Act Revision reflects an economy that continues a relatively long run of economic expansion, but that is showing some signs of a slowdown. While revenues have grown year over year, they have fallen approximately \$3.3 billion short of estimations made upon passage of the 2016 Budget Act. The Governor warns that much of the increase in revenues are attributable to capital gains, which have proven to be a highly volatile resource over time.

Further, the Governor notes that the Budget Act does not assume changes in Federal policy, and he cautions that some suggested changes in tax structure, health care, immigration and trade policies could have a detrimental effect on the State's economy and budget. Finally, the Governor reminds Californians that the current economic expansion has gone on three 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 \$125 billion, an increase of \$2.6 billion over the prior year budget. The final budget includes a fund balance of \$1.4 billion and the Rainy Day Fund has grown to \$8.5 billion. Key priorities addressed include additional funding for K14 education, enhancing county mental health programs, maintaining childcare support, and reducing the State's share of pension liabilities through a \$6 billion supplemental payment through a loan from the Surplus Money Investment Fund.

The 2017 Budget Act includes \$74.5 billion in spending for the K14 Proposition 98 guarantee, an increase of \$3.1 billion over the previous year. While the final budget could have reduced Proposition 98 funding by \$1.6 billion due to a drop in the prior year minimum guarantee, the State declined to do so. However, the final agreement includes a provision intended to slow the growth in the minimum Proposition 98 guarantee commitments over the next three years to balance out this year's over appropriation.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

California Community Colleges

The 2017 Budget Act includes the following allocations to community colleges:

Ongoing Funds

- Cost of Living Adjustment (restricted and unrestricted) - \$103.3 million (1.56%)
- Enrollment Growth - \$57.8 million (1% Statewide)
- Base Funding - \$183.6 million
- Online Education Initiative - \$10 million
- Full-time Student Success Grants - \$25 million
- Community College Completion Grants - \$25 million
- Veterans Resource Centers - \$12 million (\$7 million of which is one-time)
- Part-time Faculty Office Hours - \$5 million

One-time Funds (selected)

- Guided Pathways - \$150 million
- Deferred Maintenance and Instructional Equipment - \$76.9 million
- Innovation Awards - \$20 million
- One-time Unrestricted - \$40.7 million
- Integrated Library Systems - \$6 million
- Mental Health Services - \$4.5 million
- Hunger-free Campus Grants - \$2.5 million

Other Funds

- Proposition 39 Funding - \$46.5 million
- Increase Cal Grant C Awards from \$547 to \$1,094 - \$1.7 million

Challenges Ahead for the District

The \$1.6 billion over appropriation of the guarantee mentioned in the State Budget Overview allows the Governor to provide a significant increase to community college general purpose funding. These dollars benefit the District's budget for 2017-2018, but many challenges remain ahead. 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. Having provided Statewide base increases of \$552.3 million over the past three years, the State can claim that it has prefunded Districts with sufficient funds to address retirement system increases through 2020-2021. Committing these funds to other uses in the meantime would jeopardize future budgets.

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

- 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 and other service needs
- The ability to maintain required match on categorical funds
- Comply with statutes and regulations (e.g., the 50% Law, FON)

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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, 2017**

ASSETS

Current Assets

Cash and cash equivalents	\$ 947,739
Short-term investments - unrestricted	9,209,955
Short-term investments - restricted	52,228,605
Accounts receivable	3,204,630
Student receivables, net	560,959
Due from fiduciary funds	60,000
Inventories	487,985
Other current assets	25,203
Total Current Assets	<u>66,725,076</u>

Noncurrent Assets

Capital Assets	
Nondepreciable capital assets	36,859,420
Depreciable capital assets, net of depreciation	104,854,402
Total Noncurrent Assets	<u>141,713,822</u>

TOTAL ASSETS	<u>208,438,898</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	<u>12,393,686</u>
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LIABILITIES

Current Liabilities

Accounts payable	9,899,090
Accrued interest payable	1,212,531
Unearned revenue	5,237,280
Current portion of long-term obligations other than pensions	8,492,880
Total Current Liabilities	<u>24,841,781</u>

Noncurrent Liabilities

Noncurrent portion of long-term obligations other than pensions	73,600,361
Aggregate net pension obligation	56,300,749
Total Noncurrent Liabilities	<u>129,901,110</u>
TOTAL LIABILITIES	<u>154,742,891</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	<u>5,469,915</u>
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NET POSITION

Net investment in capital assets	86,004,651
Restricted for:	
Debt service	13,221,433
Capital projects	1,281,056
Educational programs	1,053,044
Unrestricted	(40,940,406)
TOTAL NET POSITION	<u>\$ 60,619,778</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, 2017**

OPERATING REVENUES	
Student Tuition and Fees	\$ 10,710,895
Less: Scholarship discounts and allowances	(4,019,112)
Net tuition and fees	<u>6,691,783</u>
Auxiliary Enterprise Sales and Charges	
Bookstore	2,033,079
Other Operating Revenues	<u>460,780</u>
TOTAL OPERATING REVENUES	<u><u>9,185,642</u></u>
OPERATING EXPENSES	
Salaries	40,658,514
Employee benefits	10,715,765
Supplies, materials, and other operating expenses and services	14,446,959
Student financial aid	12,068,231
Depreciation	<u>4,106,169</u>
TOTAL OPERATING EXPENSES	<u><u>81,995,638</u></u>
OPERATING LOSS	<u>(72,809,996)</u>
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	5,758,383
Grants and Contracts, noncapital	
Federal	11,851,865
State	8,042,905
Local property taxes, levied for general purposes	38,165,642
Local property taxes levied for capital debt	10,437,623
State taxes and other revenues	4,332,259
Investment income	360,953
Interest expense on capital related debt	(2,903,678)
Investment income on capital asset-related debt	71,297
Transfer from fiduciary funds	67,049
Other nonoperating revenues	<u>3,146,612</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>79,330,910</u></u>
INCOME BEFORE OTHER REVENUES	<u><u>6,520,914</u></u>
OTHER REVENUES	
State revenues, capital	303,381
Local revenues, capital	<u>82,147</u>
TOTAL OTHER REVENUES	<u><u>385,528</u></u>
CHANGE IN NET POSITION	6,906,442
NET POSITION, BEGINNING OF YEAR	<u>53,713,336</u>
NET POSITION, END OF YEAR	<u><u>\$ 60,619,778</u></u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 6,465,818
Payments of student financial aid	(12,068,231)
Payments to vendors for supplies and services	(14,084,245)
Payments to or on behalf of employees	(50,535,172)
Auxiliary enterprise sales and charges	
Bookstore	2,493,859
Net Cash Flows From Operating Activities	<u>(67,727,971)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	7,031,389
Property taxes - nondebt related	38,165,642
Noncapital grants and contracts	22,170,152
State taxes and other apportionments	4,332,259
Other nonoperating revenues	3,669,639
Net Cash Flows From Noncapital Financing Activities	<u>75,369,081</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(20,872,622)
Proceeds from capital debt	142,272
Changes in State revenue, capital projects	899,779
Local revenue, capital projects	82,147
Property taxes - related to capital debt	10,437,623
Principal paid on capital debt	(8,631,512)
Interest paid on capital debt	(2,974,233)
Interest received on capital asset-related debt	71,297
Net Cash Flows From Capital Financing Activities	<u>(20,845,249)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	<u>360,953</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,843,186)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>75,229,485</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 62,386,299</u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

Operating Loss	<u>\$ (72,809,996)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation expense	4,106,169
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows	
Receivables and student receivables, net	(389,672)
Inventories	67,265
Prepaid expenses and other assets	8,388
Accounts payable and accrued liabilities	244,673
Unearned revenue	163,707
Deferred outflows of resources related to pensions	(5,577,062)
Deferred inflows of resources related to pensions	(2,085,832)
Aggregate net pension obligation	8,384,653
Net OPEB obligation	37,956
Compensated absences, compensatory time, and load banking	<u>121,780</u>
Total Adjustments	<u>5,082,025</u>
Net Cash Flows From Operating Activities	<u><u>\$ (67,727,971)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 947,739
Cash in County Treasury and money market	<u>61,438,560</u>
Total Cash and Cash Equivalents	<u><u>\$ 62,386,299</u></u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 1,227,960</u></u>
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The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2017

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Investments	\$ 284,413	\$ 251,707
Accounts receivable	54,100	-
Total Assets	<u>338,513</u>	<u>\$ 251,707</u>
 LIABILITIES		
Accounts payable	-	\$ 1,007
Due to primary government	60,000	-
Due to student groups	-	250,700
Total Liabilities	<u>60,000</u>	<u>\$ 251,707</u>
 NET POSITION		
Unrestricted	<u>\$ 278,513</u>	

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEAR ENDED JUNE 30, 2017

	Trust Funds
ADDITIONS	
Local revenues	\$ 704,612
DEDUCTIONS	
Academic salaries	
Classified salaries	15,694
Employee benefits	210
Books and supplies	4,392
Services and operating expenditures	95,167
Total Deductions	<u>115,463</u>
EXCESS OF REVENUES OVER EXPENSES	<u>589,149</u>
OTHER FINANCING USES	
Transfers to primary government	(67,049)
Other uses	(520,587)
Total Other Financing Uses	<u>(587,636)</u>
CHANGE IN NET POSITION	<u>1,513</u>
NET POSITION - BEGINNING OF YEAR	<u>277,000</u>
NET POSITION - END OF YEAR	<u><u>\$ 278,513</u></u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017

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, 2017, is as follows:

Condensed Statement of Net Position

ASSETS

Cash and cash equivalent	\$ 1,569,830
Due from other fund	43,000
Total Assets	<u><u>\$ 1,612,830</u></u>

NET POSITION

Restricted for:	
Debt services	<u><u>\$ 1,612,830</u></u>

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

NONOPERATING REVENUES

Investment income	<u>\$ 8,447</u>
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EXPENDITURES

(817,033)

TRANSFER IN

233,049

CHANGE IN NET POSITION

(575,537)

NET POSITION, BEGINNING OF YEAR

2,188,367

NET POSITION, END OF YEAR

\$ 1,612,830

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows.

Investments

Investments held at June 30, 2017, with original maturities greater than one year, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pools are determined by the program sponsor.

Restricted Assets

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$2,069,013 for the year ended June 30, 2017.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Inventories

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

Debt Issuance Costs, Premiums, and Discounts

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

Capital Assets and Depreciation

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

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

Accrued Liabilities and Long-Term Obligations

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

Deferred Outflows/Inflows of Resources

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

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, 2017

Pensions

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

Compensated Absences

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

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

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized. Unearned revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year, and (2) amounts received from Federal and State grants received before the eligibility requirements are met are recorded as unearned revenue.

Noncurrent Liabilities

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Net Position

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The District-wide financial statements report \$15,555,533 of restricted net position.

State Apportionments

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

Property Taxes

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

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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Scholarships, Discounts, and Allowances

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

Federal Financial Assistance Programs

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

Estimates

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

Interfund Activity

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

Change in Accounting Principles

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

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

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

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

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

New Accounting Pronouncements

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

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

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

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

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

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

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

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017

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, 2017, consist of the following:

Primary government	\$ 62,386,299
Fiduciary funds	536,120
Total Deposits and Investments	<u>\$ 62,922,419</u>
Cash on hand and in banks	\$ 937,739
Cash in revolving	10,000
Investments	61,974,680
Total Deposits and Investments	<u>\$ 62,922,419</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 \$61,103,043 with the San Luis Obispo County Investment Pool with a weighted maturity of 290 days. In addition, the District also has an investment of \$871,637 in money market funds with U.S. Bank.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Luis Obispo County Investment Pool was rated by Fitch Ratings as AAA/V1. The U.S. Bank money market account was 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, 2017, the District's bank balance was \$947,739. Of this balance, \$275,245 was exposed to custodial credit risk because it was uninsured but is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 2 Inputs</u>	<u>Uncategorized</u>
San Luis Obispo County Investment Pool	\$ 61,036,628	\$ -	\$ 61,036,628
U.S. Bank Money Market	871,637	871,637	-
Total	<u>\$ 61,908,265</u>	<u>\$ 871,637</u>	<u>\$ 61,036,628</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, 2017

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017, 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	\$ 214,945
State Government	
Apportionment	446,479
Categorical aid	387,749
Lottery	356,914
Local Sources	
Interest and other local sources	1,798,543
Total	<u>\$ 3,204,630</u>
Student receivables	\$ 2,629,972
Less allowance for bad debt	(2,069,013)
Student receivables, net	<u>\$ 560,959</u>
	<u>Fiduciary Funds</u>
Other local sources	<u>\$ 54,100</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital Assets Not Being Depreciated				
Land	\$ 1,216,661	\$ -	\$ -	\$ 1,216,661
Construction in progress	10,011,561	25,662,240	31,042	35,642,759
Total Capital Assets Not Being Depreciated	<u>11,228,222</u>	<u>25,662,240</u>	<u>31,042</u>	<u>36,859,420</u>
Capital Assets Being Depreciated				
Land improvements	15,230,157	-	-	15,230,157
Portable buildings	819,383	14,057	-	833,440
Buildings and improvements	140,926,049	193,837	-	141,119,886
Equipment	4,785,033	215,543	-	5,000,576
Technology equipment	8,182,468	63,741	-	8,246,209
Furniture and fixtures	152,442	-	-	152,442
Vehicles	1,342,071	224,796	-	1,566,867
Total Capital Assets Being Depreciated	<u>171,437,603</u>	<u>711,974</u>	<u>-</u>	<u>172,149,577</u>
Total Capital Assets	<u>182,665,825</u>	<u>26,374,214</u>	<u>31,042</u>	<u>209,008,997</u>
Less Accumulated Depreciation				
Land improvements	13,441,827	476,580	-	13,918,407
Portable buildings	804,633	5,324	-	809,957
Buildings and improvements	36,962,224	2,908,256	-	39,870,480
Equipment	3,474,291	258,234	-	3,732,525
Technology equipment	7,394,974	352,367	-	7,747,341
Furniture and fixtures	152,442	-	-	152,442
Vehicles	958,615	105,408	-	1,064,023
Total Accumulated Depreciation	<u>63,189,006</u>	<u>4,106,169</u>	<u>-</u>	<u>67,295,175</u>
Net Capital Assets	<u>\$ 119,476,819</u>	<u>\$ 22,268,045</u>	<u>\$ 31,042</u>	<u>\$ 141,713,822</u>

Depreciation expense for the year was \$4,106,169.

Interest expense on capital related debt for the year ended June 30, 2017, was \$3,715,602. Of this amount, \$811,924 was capitalized.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

	<u>Primary Government</u>
Vendor payables	\$ 2,203,949
Instructional service agreements	568,841
Construction	6,797,851
Accrued payroll	315,411
Federal Categorical Aid	265
State Categorical Aid	12,773
Total	<u>\$ 9,899,090</u>
	<u>Fiduciary Funds</u>
Other	<u>\$ 1,007</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consisted of the following:

	<u>Primary Government</u>
State categorical aid	\$ 4,145,083
Student tuition and fees and other	1,032,570
Other	59,627
Total	<u>\$ 5,237,280</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 governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2017, the fiduciary funds owed the primary government \$60,000.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2017 fiscal year, the amount transferred to the primary government from the fiduciary funds amounted to \$67,049.

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2017 fiscal year consisted of the following:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
Bonds and Notes Payable					
General Obligation Bond - Series A	\$ 75,000,000	\$ -	\$ 7,905,000	\$ 67,095,000	\$ 7,670,000
Unamortized Bond Premium	5,788,075	-	244,567	5,543,508	-
2003 Certificates of participation	860,000	-	260,000	600,000	600,000
2009 Certificates of participation	6,770,000	-	150,000	6,620,000	155,000
Notes payable	100,000	-	46,154	53,846	46,154
Total Bonds and Notes Payable	<u>88,518,075</u>	<u>-</u>	<u>8,605,721</u>	<u>79,912,354</u>	<u>8,471,154</u>
Other Obligations					
Compensated absences	1,282,907	90,019	-	1,372,926	-
Compensatory time	53,197	-	12,143	41,054	-
Load banking	180,281	43,904	-	224,185	-
Capital leases	-	142,272	25,791	116,481	21,726
Net OPEB obligation	388,285	71,290	33,334	426,241	-
Aggregate net pension obligation	47,916,096	8,384,653	-	56,300,749	-
Total Other Obligations	<u>49,820,766</u>	<u>8,732,138</u>	<u>71,268</u>	<u>58,481,636</u>	<u>21,726</u>
Total Long-Term Obligations	<u>\$ 138,338,841</u>	<u>\$ 8,732,138</u>	<u>\$ 8,676,989</u>	<u>\$ 138,393,990</u>	<u>\$ 8,492,880</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Description of Debt

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

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, 2017, the principal balance outstanding was \$67,905,000, and the unamortized premium was \$5,543,508. 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, 2016	Issued	Redeemed	Outstanding June 30, 2017
2/18/2015	2014 Series A and A-1	8/1/2040	2.00% - 5.00%	\$ 75,000,000	\$ 75,000,000	\$ -	\$ 7,905,000	\$ 67,095,000

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The general obligation bonds mature through 2041 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2018	\$ 7,670,000	\$ 2,616,896	\$ 10,286,896
2019	6,325,000	2,375,346	8,700,346
2020	465,000	2,241,871	2,706,871
2021	570,000	2,226,973	2,796,973
2022	685,000	2,209,247	2,894,247
2023-2027	5,415,000	10,598,753	16,013,753
2028-2032	10,055,000	8,840,875	18,895,875
2033-2037	16,680,000	5,692,775	22,372,775
2038-2041	19,230,000	1,612,000	20,842,000
Total	<u>\$ 67,095,000</u>	<u>\$ 38,414,736</u>	<u>\$ 105,509,736</u>

2003 Certificates of Participation

On July 15, 2003, the San Luis Obispo County Community College District Financing Corporation issued \$3,325,000 of certificates of participation with interest rates ranging from 1.10 percent to 3.80 percent. The certificates mature through July 2017 (fiscal year 2018). At June 30, 2017, the principal balance outstanding is \$600,000.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$ 600,000</u>	<u>\$ 11,400</u>	<u>\$ 611,400</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

2009 Certificates of Participation

In November 2009, the District issued \$24,995,000 of certificates of participation to finance the acquisition and construction of certain facilities and refinance certain District obligations. The certificates' interest rates range from 3.1 percent to 5.9 percent. The certificates mature through 2040. At June 30, 2017, the principal balance outstanding is \$6,620,000.

Year Ending June 30,	Principal	Interest	Total
2018	\$ 155,000	\$ 367,625	\$ 522,625
2019	160,000	360,731	520,731
2020	170,000	353,094	523,094
2021	175,000	344,791	519,791
2022	185,000	335,900	520,900
2023-2027	1,080,000	1,518,313	2,598,313
2028-2032	1,405,000	1,177,613	2,582,613
2033-2037	1,860,000	705,881	2,565,881
2038-2040	1,430,000	129,250	1,559,250
Total	<u>\$ 6,620,000</u>	<u>\$ 5,293,198</u>	<u>\$ 11,913,198</u>

Notes Payable

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

The annual debt service requirements to amortize the notes payable outstanding as of June 30, 2017, are as follows:

Year Ending June 30,	
2018	\$ 46,154
2019	7,692
Total	<u>\$ 53,846</u>

Compensated Absences and Compensatory Time

Compensated absences and compensatory time at June 30, 2017, are \$1,372,926 and \$41,054, 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, 2017, is \$224,185.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Capital Leases

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

	Police Vehicles
Balance, July 1, 2016	\$ -
Additions	154,746
Payments	25,791
Balance, June 30, 2017	<u>\$ 128,955</u>

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

Year Ending June 30,	Lease Payment
2018	\$ 25,791
2019	25,791
2020	25,791
2021	25,791
2022	25,791
Total	<u>128,955</u>
Less: Amount Representing Interest	(12,474)
Present Value of Minimum Lease Payments	<u>\$ 116,481</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	(17,784)
	<u>\$ 124,488</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2017, was \$64,915, and contributions made by the District during the year were \$33,334. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$19,414 and \$(13,039), respectively, which resulted in an increase to the net OPEB obligation of \$37,956. As of June 30, 2017, the net OPEB obligation was \$426,241. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Aggregate Net Pension Obligation

The District's aggregate net pension obligation for the year ended June 30, 2017, was \$56,300,749. See Note 13 for additional information regarding the District's net pension liability and the employee retirement plans.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

Plan Description

The District offers limited postemployment benefits. One former administrator was offered lifetime health benefits as part of their employment contract. Other than this administrator, certain eligible active and retired employees are provided the opportunity to purchase insurance directly from providers through the District, thereby providing employees with a benefit derived from the combined purchasing power of the employees who elect to participate. Membership of the plan consists of 32 retirees and 386 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. For the fiscal year 2016-2017, the District's actuarial contribution to the plan was \$33,334 all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 64,915
Interest on net OPEB obligation	19,414
Adjustment to annual required contribution	<u>(13,039)</u>
Annual OPEB cost (expense)	71,290
Contribution made	<u>(33,334)</u>
Increase in net OPEB obligation	37,956
Net OPEB obligation, beginning of year	<u>388,285</u>
Net OPEB obligation, end of year	<u>\$ 426,241</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2015	\$ 109,517	\$ 44,184	40%	\$ 349,354
2016	70,652	31,721	45%	388,285
2017	71,290	33,334	47%	426,241

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2017, is as follows:

Actuarial Accrued Liability (AAL)	\$ 417,031
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 417,031
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	\$ 35,093,856
UAAL as Percentage of Covered Payroll	1.2%

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

Actuarial Methods and Assumptions

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In the February 1, 2016, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return based on the assumed long-term return on plan assets or employer assets. The cost trend rate used for the medical program was four percent. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period is 23 years. The actuarial value of assets was not determined in this actuarial study.

NOTE 12 - 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, 2017, 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.

Workers' Compensation

For fiscal year 2016-2017, 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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of 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, 2017, 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>	Collective Net <u>Pension Liability</u>	Collective <u>Deferred Outflows of Resources</u>	Collective <u>Deferred Inflows of Resources</u>	Collective <u>Pension Expense</u>
CalSTRS	\$ 32,632,487	\$ 5,344,682	\$ 4,045,040	\$ 2,723,795
CalPERS	23,668,262	7,049,004	1,424,875	2,801,949
Total	<u>\$ 56,300,749</u>	<u>\$ 12,393,686</u>	<u>\$ 5,469,915</u>	<u>\$ 5,525,744</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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required State contribution rate	8.828%	8.828%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2017, are presented above, and the District's total contributions were \$2,750,415.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 32,632,487
State's proportionate share of net pension liability associated with the District	18,577,093
Total	<u>\$ 51,209,580</u>

The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2016 and June 30, 2015, was 0.0403 percent and 0.0448 percent, respectively, resulting in a net decrease in the proportionate share of 0.0045 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$2,723,795. In addition, the District recognized pension expense and revenue of \$1,795,672 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,750,415	\$ -
Net change in proportionate share of net pension liability	-	3,249,007
Differences between projected and actual earnings on the pension plan investments	2,594,267	-
Differences between expected and actual experience in the measurement of the total pension liability	-	796,033
Total	<u>\$ 5,344,682</u>	<u>\$ 4,045,040</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, 2017

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 56,598
2019	56,598
2020	1,508,057
2021	973,014
Total	<u>\$ 2,594,267</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ (700,257)
2019	(700,257)
2020	(700,257)
2021	(700,257)
2022	(700,257)
Thereafter	(543,755)
Total	<u>\$ (4,045,040)</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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

Discount Rate

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 46,965,509
Current discount rate (7.60%)	32,632,487
1% increase (8.60%)	20,728,313

California Public Employees' Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The CalPERS provisions and benefits in effect at June 30, 2017, 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%	6.00%
Required employer contribution rate	13.888%	13.888%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above, and the total District contributions were \$2,053,570.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$23,668,262. The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2016 and June 30, 2015, was 0.1198 percent and 0.1203 percent, respectively, resulting in a net decrease in the proportionate share of 0.0005 percent.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

For the year ended June 30, 2017, the District recognized pension expense of \$2,801,949. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,053,570	\$ -
Net change in proportionate share of net pension liability	304,919	713,785
Differences between projected and actual earnings on the pension plan investments	3,672,553	-
Differences between expected and actual experience in the measurement of the total pension liability	1,017,962	-
Changes of assumptions	-	711,090
Total	<u>\$ 7,049,004</u>	<u>\$ 1,424,875</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
2018	\$ 515,123
2019	515,124
2020	1,683,801
2021	958,505
Total	<u>\$ 3,672,553</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ (173,727)
2019	(133,546)
2020	205,279
Total	<u>\$ (101,994)</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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and services

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.65%)	\$ 35,313,179
Current discount rate (7.65%)	23,668,262
1% increase (8.65%)	13,971,577

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2017, which amounted to \$1,227,960 (8.828 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2017. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

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

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

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

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

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

During the year ended June 30, 2017, the District made payments of \$187,223, \$308,148, \$1,978,718, and \$306,123 to the BACCD, SIPE, SISC III, and the California Dental Coalition, respectively.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2017.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2017.

Construction Commitments

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

<u>CAPITAL PROJECTS</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
North County Campus Center	\$ 11,591,786	March 31, 2018
San Luis Obispo Campus Instructional Building	5,146,751	January 31, 2018
Early Childhood Educational Building	181,048	August 31, 2017
Aquatic Center Complex	211,089	September 30, 2017
	<u>\$ 17,130,674</u>	

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

REQUIRED SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.0403%</u>	<u>0.0448%</u>	<u>0.0456%</u>
District's proportionate share of the net pension liability	<u>\$ 32,632,487</u>	<u>\$ 30,184,782</u>	<u>\$ 26,654,408</u>
State's proportionate share of the net pension liability associated with the District	<u>18,577,093</u>	<u>15,964,422</u>	<u>16,095,083</u>
Total	<u><u>\$ 51,209,580</u></u>	<u><u>\$ 46,149,204</u></u>	<u><u>\$ 42,749,491</u></u>
District's covered-employee payroll	<u>\$ 21,205,592</u>	<u>\$ 20,502,511</u>	<u>\$ 20,315,806</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>153.89%</u>	<u>147.22%</u>	<u>131.20%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.1198%</u>	<u>0.1203%</u>	<u>0.1229%</u>
District's proportionate share of the net pension liability	<u>\$ 23,668,262</u>	<u>\$ 17,731,314</u>	<u>\$ 13,948,691</u>
District's covered-employee payroll	<u>\$ 14,591,584</u>	<u>\$ 13,149,104</u>	<u>\$ 12,898,243</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>162.205%</u>	<u>134.848%</u>	<u>108.144%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 2,750,415	\$ 2,275,360	\$ 1,820,623
Contributions in relation to the contractually required contribution	<u>2,750,415</u>	<u>2,275,360</u>	<u>1,820,623</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 21,863,394</u>	<u>\$ 21,205,592</u>	<u>\$ 20,502,511</u>
Contributions as a percentage of covered-employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 2,053,570	\$ 1,728,665	\$ 1,547,781
Contributions in relation to the contractually required contribution	<u>2,053,570</u>	<u>1,728,665</u>	<u>1,547,781</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 14,786,650</u>	<u>\$ 14,591,584</u>	<u>\$ 13,149,104</u>
Contributions as a percentage of covered-employee payroll	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

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

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

Schedule of District Contributions

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, 2017

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

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

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program (PELL)	84.063		\$ 7,589,107
Federal Pell Administrative Allowance	84.063		12,090
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		118,431
Federal Work Study Program	84.033		123,609
Federal Direct Student Loans	84.268		3,524,973
Total Student Financial Assistance Cluster			<u>11,368,210</u>
Passed through California Community Colleges Chancellor's Office			
Career and Technical Education (CTE), Title I-C	84.048A	16-C01-051	241,404
CTE Transitions	84.048A	16-C01-051	43,748
Passed through California Department of Education			
Adult Education and Family Literacy Act	84.002A	16-39-6881-00	93,758
English Literacy and Civics Education:			
Civic Participation, Citizenship Preparation	84.002A	16-42-6881-00	43,723
Adult Secondary Education	84.002A	16-41-6881-00	2,717
Total U.S. Department of Education			<u>11,793,560</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665		5,168
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Education	64.028		1,299
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Community Colleges Chancellor's Office			
Temporary Assistance to Needy Families (TANF)	93.558	*	51,838
Total Expenditures of Federal Awards			<u>\$ 11,851,865</u>

* Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Adult Ed Block Grant	\$ 1,329,958	\$ 176,141	\$ 1,506,099
Adult Ed Block Grant Data and Accountability	-	130,362	130,362
Basic Skills	90,000	75,872	165,872
Basic Skills and Student Outcomes Transformation	1,398,061	-	1,398,061
California Career Pathways	90,000	264,052	354,052
CalWORKs	282,911	-	282,911
Challenge (SYA) Even Year	-	96,032	96,032
Challenge (SYA) Odd Year	233,468	-	233,468
Coop Agencies Resources - Educ (CARE)	112,502	-	112,502
CTE Data Unlocked	50,000	-	50,000
CTE Enhancement	-	27,681	27,681
Deputy Sector Navigator SB 1070	-	98,208	98,208
Deputy Sector Navigator SB 858	100,000	-	100,000
Deputy Sector Navigator SB1402	200,000	-	200,000
Deputy Sector Navigator Mini Grants	7,500	-	7,500
Disabled Students Programs/Svcs (DSPS)	750,396	5,521	755,917
Econ Oppor Program and Svcs (EOPS)	481,374	10,580	491,954
Equal Employment Opportunity	60,000	516	60,516
Foster and Kinship Care Education (FKCE)	200,384	-	200,384
Foster and Kinship Care Education CSEC	7,750	-	7,750
Grizzly (GYA) Even Year	-	71,334	71,334
Grizzly (GYA) Odd Year	110,364	-	110,364
Innovation in Higher Education	2,000,000	-	2,000,000
Instructional Equipment	668,580	-	668,580
John Muir Charter School	44,611	-	44,611
Nursing Enrollment Growth & Retention	125,500	-	125,500
SB1070 CTE Pathways	1,676	-	1,676
SLOPE California Career Pathways Subgrant	95,308	95,308	190,616
Strong Workforce Program - Local	681,863	-	681,863
Student Equity Program	871,958	366,252	1,238,210
Student Financial Aid Admin (BFAP)	293,514	-	293,514
Student Financial Aid Admin - Return to Title IV	-	1,092	1,092
Student Mental Health Program	1,000	-	1,000
Student Success (Credit)	1,622,730	582,973	2,205,703
Student Success (Non-Credit)	107,287	81,300	188,587
Successful Launch	140,724	-	140,724
YESS, CA	22,500	-	22,500

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable/(Payable)	Unearned Revenue	Total Revenue	Program Expenditures
\$ 1,506,099	\$ -	\$ 216,233	\$ 1,289,866	\$ 1,289,866
130,362	-	18,823	111,539	111,539
165,872	-	42,821	123,051	123,051
559,224	-	366,457	192,767	192,767
354,052	-	50,310	303,742	303,742
278,598	1,688	6,419	273,867	273,867
67,549	-	-	67,549	67,549
2,037	26,898	-	28,935	28,935
112,502	(4,524)	-	107,978	107,978
50,000	-	50,000	-	-
27,503	500	-	28,003	28,003
98,208	-	-	98,208	98,208
40,000	48,048	-	88,048	88,048
80,000	120,000	-	200,000	200,000
-	7,500	-	7,500	7,500
755,917	-	-	755,917	755,917
491,954	(8,249)	-	483,705	483,705
60,516	-	-	60,516	60,516
106,504	93,099	-	199,603	199,603
4,650	3,100	-	7,750	7,750
40,988	-	-	40,988	40,988
12,821	22,991	-	35,812	35,812
2,000,000	-	2,000,000	-	-
668,580	-	228,922	439,658	439,658
36,716	7,465	-	44,181	44,181
115,460	10,040	-	125,500	125,500
1,415	-	-	1,415	1,415
-	4,940	-	4,940	4,940
681,863	-	519,177	162,686	162,686
1,238,210	-	180,720	1,057,490	1,057,490
293,514	-	-	293,514	293,514
1,092	-	-	1,092	1,092
-	1,000	-	1,000	1,000
2,205,703	-	450,603	1,755,100	1,755,100
188,587	-	14,598	173,989	173,989
107,112	27,872	-	134,984	134,984
9,892	12,608	-	22,500	22,500
<u>\$ 12,493,500</u>	<u>\$ 374,976</u>	<u>\$ 4,145,083</u>	<u>\$ 8,723,393</u>	<u>\$ 8,723,393</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, 2017**

CATEGORIES	*Revised Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2016 only)			
1. Noncredit**	129.50	-	129.50
2. Credit	3.44	-	3.44
B. Summer Intersession (Summer 2017 - Prior to July 1, 2017)			
1. Noncredit**	-	-	-
2. Credit	12.46	-	12.46
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	4,955.96	-	4,955.96
(b) Daily Census Contact Hours	758.66	-	758.66
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	259.49	-	259.49
(b) Credit	53.53	-	53.53
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	684.10	-	684.10
(b) Daily Census Contact Hours	271.27	-	271.27
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	7,128.41	-	7,128.41
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	-	-	-
H. Basic Skills Courses and Immigrant Education			
1. Noncredit**	334.79	-	334.79
2. Credit	141.64	-	141.64
<u>CCFS-320 Addendum</u>			
CDCP Noncredit FTES	239.43	-	239.43
Centers FTES			
1. Noncredit**	115.46	-	115.46
2. Credit	1,165.95	-	1,165.95

* Annual report revised as of November 2, 2017.

** 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, 2017**

	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	\$ 10,081,629	\$ -	\$ 10,081,629	\$ 10,081,629	\$ -	\$ 10,081,629
Other	1300	7,416,472	-	7,416,472	7,416,472	-	7,416,472
Total Instructional Salaries		17,498,101	-	17,498,101	17,498,101	-	17,498,101
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	4,637,809	-	4,637,809
Other	1400	-	-	-	288,307	-	288,307
Total Noninstructional Salaries		-	-	-	4,926,116	-	4,926,116
Total Academic Salaries		17,498,101	-	17,498,101	22,424,217	-	22,424,217
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	9,152,686	-	9,152,686
Other	2300	-	-	-	297,410	-	297,410
Total Noninstructional Salaries		-	-	-	9,450,096	-	9,450,096
Instructional Aides							
Regular Status	2200	653,153	-	653,153	653,153	-	653,153
Other	2400	182,926	-	182,926	182,926	-	182,926
Total Instructional Aides		836,079	-	836,079	836,079	-	836,079
Total Classified Salaries		836,079	-	836,079	10,286,175	-	10,286,175
Employee Benefits	3000	4,861,331	-	4,861,331	9,246,223	-	9,246,223
Supplies and Material	4000	-	-	-	526,677	-	526,677
Other Operating Expenses	5000	568,541	-	568,541	6,180,781	-	6,180,781
Equipment Replacement	6420	-	-	-	2,373	-	2,373
Total Expenditures Prior to Exclusions		23,764,052	-	23,764,052	48,666,446	-	48,666,446

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, 2017

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Audited Data	Reported Data	Audit Adjustments	Audited Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	75,837	-	75,837
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	7,464	-	7,464
Objects to Exclude							
Rents and Leases	5060	-	-	-	128,938	-	128,938
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, 2017

	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	\$ -	\$ -	\$ -	\$ 1,420,239	\$ -	\$ 1,420,239
Capital Outlay	6000						
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	1,632,478	-	1,632,478
Total for ECS 84362, 50 Percent Law		\$ 23,764,052	\$ -	\$ 23,764,052	\$ 47,033,968	\$ -	\$ 47,033,968
Percent of CEE (Instructional Salary Cost/Total CEE)		50.53%		50.53%	100.00%		100.00%
50% of Current Expense of Education					\$ 23,516,984		\$ 23,516,983

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Activity Classification	Object Code	Unrestricted			
EPA Revenue:	8630				\$ 4,105,298
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 4,105,298	-	-	\$ 4,105,298
Total Expenditures for EPA		\$ 4,105,298	-	-	\$ 4,105,298
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, 2017**

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

Total Fund Balance

General Fund - unrestricted	\$ 9,808,568
General Fund - restricted	1,053,044
Special Revenue Funds	100,754
Capital Project Funds	25,600,720
Debt Service Funds	14,433,964
Enterprise Funds	283,655
Internal Service Funds	<u>267,156</u>

Total Fund Balances

- All District Funds **\$ 51,547,861**

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:	209,008,997
Accumulated depreciation is:	<u>(67,295,175)</u>

Total Capital Assets on the Statement of Net Position 141,713,822

Less fixed assets already recorded in the enterprise funds (2,292)

Total Capital Assets Net of Capital Assets of the Enterprise Fund 141,711,530

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (1,212,531)

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	4,803,985
Net change in proportionate share of net pension liability	304,919
Differences between projected and actual earnings on pension plan investments	6,266,820
Differences between expected and actual experience in the measurement of the total pension liability	<u>1,017,962</u>

Total Deferred Outflows of Resources Related to Pensions 12,393,686

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.

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, 2017

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

Net change in proportionate share of net pensions liability	\$ (3,962,792)	
Differences between expected and actual experience in the measurement of the total pension liability	(796,033)	
Changes in assumptions	<u>(711,090)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (5,469,915)

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

Long-term obligations at year end consist of:

General Obligation Bond	67,095,000	
Unamortized Bond Premium	5,543,508	
2003 Certificates of Participation	600,000	
2009 Certificates of Participation	6,620,000	
Note payable	53,846	
Compensated absences (less amount set up in enterprise funds)	1,329,789	
Compensatory time	41,054	
Capital leases	116,481	
Net OPEB obligation	426,241	
Load banking	224,185	
Aggregate net pension obligation	<u>56,300,749</u>	<u>(138,350,853)</u>
Total Net Position		<u><u>\$ 60,619,778</u></u>

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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 Fund Financial Statements

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

Proposition 30 Education Protection Act (EPA) Expenditure Report

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2017

Reconciliation of Governmental Funds to the Statement of Net Position

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of San Luis Obispo County Community College District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 21, 2017.

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.

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

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

Report on Compliance for Each Major Federal Program

We have audited San Luis Obispo County Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2017. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the 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.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

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

Management's Responsibility

Management is responsible for compliance with the requirements of State laws and regulations, and the terms and conditions identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in March 2017.

Auditor's Responsibility

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

Unmodified Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2017.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007; 84.033; 84.063; 84.268</u>	<u>Student Financial Assistant 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>
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SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

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

2016-001 SECTION 424 - STATE GENERAL APPORTIONMENT FUNDING SYSTEM

Criteria or Specific Requirement

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

Condition

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

Daily Contact Hours-Credit was overstated by 275.02 hours

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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

Questioned Costs

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

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

Context

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

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

Effect

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

Cause

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

Recommendation

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

Current Status

Implemented.