



Financial Statements
June 30, 2019

San Luis Obispo County Community
College District

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2019

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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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2018-2019 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 17, the Schedule of Changes in the District's Total OPEB Liability and Related Ratios on page 67, the Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program on page 68, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 69, and the Schedule of District Contributions on page 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019, 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.

Eide Bailly LLP

Rancho Cucamonga, California
December 20, 2019



INTRODUCTION

This introduction to the District-wide financial statements provides background information regarding the financial position and activities of the San Luis Obispo County Community College District - Cuesta College (the District) for the years ended June 30, 2019 and 2018. We encourage readers to consider the information presented in this Management's Discussion and Analysis in conjunction with the financial statements and accompanying notes to the financial statements.

Overview of the District-Wide Basic Financial Statements

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

This Annual Report

This annual report consists of the following sections:

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

FINANCIAL HIGHLIGHTS

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

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

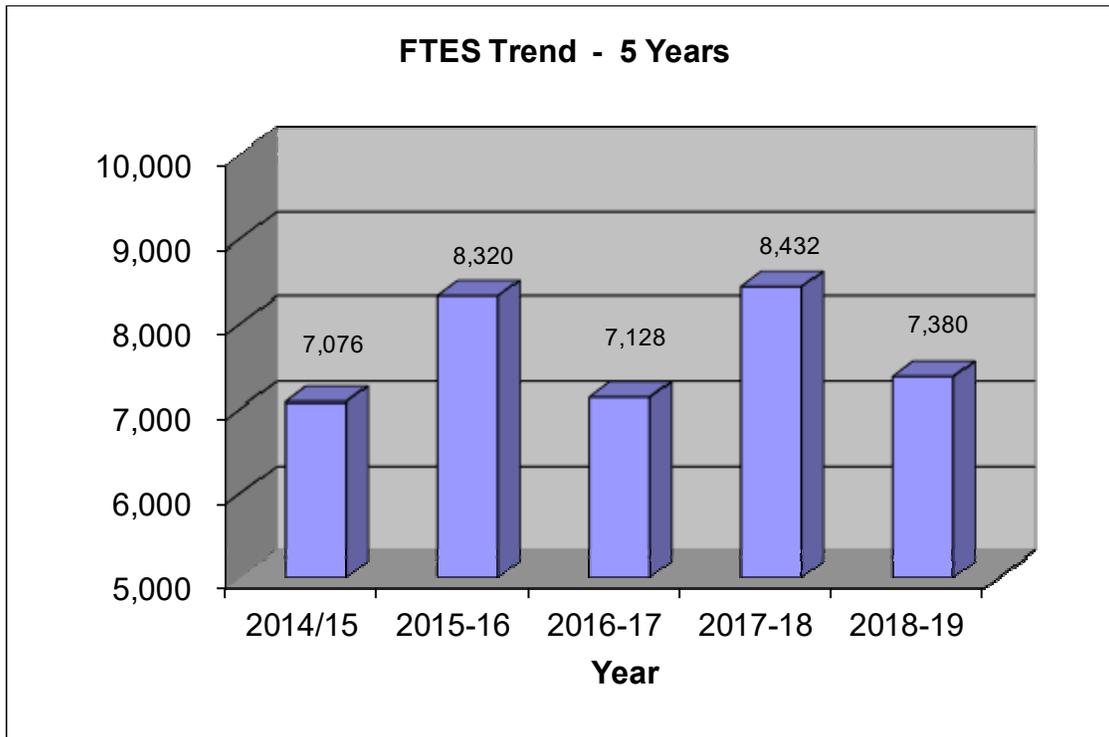
SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

The 2018 Budget Act and corresponding trailer legislation enacted the Student-Centered Funding Formula (SCFF). The SCFF moves colleges away from a pure growth model to one based more on performance and student equity. Under the SCFF, approximately 70 percent of the system’s general apportionment funding will be based on FTES, with 10 percent based on various student success metrics (e.g., number of degree completions, transfers, certificates, success in transfer-level math and English courses, etc.) and 20 percent for a supplemental grant based on the number of disadvantaged students (Pell grant recipients, Promise grant recipients, and AB 540 students). Certain FTES (non-credit/CDCP, special admits, incarcerated) are excluded from the SCFF calculation and are funded as they were under the old model. Another notable difference from the old model is that FTES is calculated on a three-year average. Through the 2021-2022 academic year, the state guarantees a transitional “hold harmless” period, which means that no district will be funded at less than its 2017-2018 level of revenues as adjusted by the COLAs over that time. The district is projecting to be in hold harmless through 2021-2022.

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



SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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 2018-2019 as compared to fiscal year 2017-2018:

<u>Fiscal Year</u>	<u>2019</u>	<u>2018</u>	<u>Difference</u>
Property tax	\$ 41,823,918	\$ 39,810,327	\$ 2,013,591
Enrollment fees	3,802,544	3,544,036	258,508
Apportionment	4,110,293	74,230	4,036,063
Education Protection Act	312,107	5,728,082	(5,415,975)
Total	<u>\$ 50,048,862</u>	<u>\$ 49,156,675</u>	<u>\$ 892,187</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

CONDENSED DISTRICT-WIDE FINANCIAL INFORMATION IS AS FOLLOWS:

Condensed Statement of Net Position as of June 30, 2019 and 2018

Amounts in thousands

	2019	2018
ASSETS		
Current Assets		
Cash, investments, and short-term receivables	\$ 94,585	\$ 111,076
Inventory and other assets	369	470
Total Current Assets	94,954	111,546
Noncurrent Assets		
Capital assets, net of depreciation	176,915	160,132
Total Assets	271,869	271,678
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	18,425	18,868
Total Assets and Deferred Outflows	\$ 290,294	\$ 290,546
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 11,202	\$ 9,804
Unearned revenue	5,381	3,930
Current portion - long-term obligations other than pensions	7,734	6,576
Total Current Liabilities	24,317	20,310
Noncurrent Liabilities		
Noncurrent portion - long-term obligations other than pensions	134,065	142,134
Aggregate net pension obligation	65,343	65,291
Total Noncurrent Liabilities	199,408	207,425
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related OPEB	9	-
Deferred inflows of resources related to pensions	7,019	5,380
Total Deferred Inflows of Resources	7,028	5,380
NET POSITION		
Net investment in capital assets	86,210	84,362
Restricted	22,586	21,689
Unrestricted deficit	(49,255)	(48,620)
Total Net Position	59,541	57,431
Total Liabilities, Deferred Inflows, and Net Position	\$ 290,294	\$ 290,546

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

The preceding schedule has been prepared from the District's Statement of Net Position (page 18) which is presented on the accrual basis of accounting whereby assets are capitalized and depreciated. Cash and investments (above) consist primarily of funds held in the San Luis Obispo County Treasury. A portion of the unrestricted net position has been designated by the Board or by contract for such purposes as Federal and State grants, bookstore reserves, and general reserves to ensure the ongoing financial health of the District.

Cash, investments and short-term receivables decreased by \$16.5 million while capital assets net of depreciation increased by \$16.8 million. Accounts payable and accrued liabilities increased by \$1.4 million. This was primarily due to the District's Measure L General Obligation Bond program. Cash from bond proceeds was spent and capital assets increased. Measure L was passed in November 2014; authorizing the District to issue \$275 million in general obligation bonds. The first series of bonds of \$75 million were issued in March 2015. The second series of bonds of \$73 million were issued in January 2018. The District will issue bonds every three years for a total of four issuances. Capital asset improvements made from the first series of bonds include construction on the SLO Campus Instructional Building and North County Campus Center, pool and roof repairs, and planning costs associated with the Early Childhood Education Center and the Aquatic Center Renovation projects. Capital asset improvements made from the second series of bonds include construction of the SLO Data Center, North County Early Childhood Education Center, SLO Aquatic Center, Renovations of the 1000 and 2000 Building Complexes, North County Parking Lot 10 and Monument, and various other projects. The general obligation bond payments are made from tax revenue collected with the passage of Measure L.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Condensed Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2019 and 2018

Amounts in thousands

	<u>2019</u>	<u>2018</u>
REVENUES		
Operating Revenues		
Net tuition and fees	\$ 6,902	\$ 6,331
Total grants and contracts, noncapital	12,202	14,280
Auxiliary sales and charges and other operating revenue	2,107	2,330
Total Operating Revenues	<u>21,211</u>	<u>22,941</u>
Operating Expenses		
Salaries and benefits	61,197	59,628
Supplies, materials, and other operating expense and services	17,506	17,957
Student financial aid	13,696	13,726
Depreciation	4,847	4,065
Total Operating Expenses	<u>97,246</u>	<u>95,376</u>
Operating Loss	<u>(76,035)</u>	<u>(72,435)</u>
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	5,676	5,960
Property taxes	54,371	51,263
Federal and State financial aid grants, noncapital	13,695	13,726
State revenues	6,834	3,713
Investment income	1,736	922
Interest expense	(4,845)	(4,178)
Transfers to/from fiduciary funds	-	(2,994)
Other nonoperating	570	1,620
Total Nonoperating Revenues (Expenses)	<u>78,037</u>	<u>70,032</u>
Income (Loss) Before Other Revenues	<u>2,002</u>	<u>(2,403)</u>
Other Revenues (Losses)		
State and local capital income	111	345
Loss on disposal of capital assets	(2)	(803)
Total Other Revenues (Losses)	<u>109</u>	<u>(458)</u>
Net Change in Net Position	<u>\$ 2,111</u>	<u>\$ (2,861)</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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.

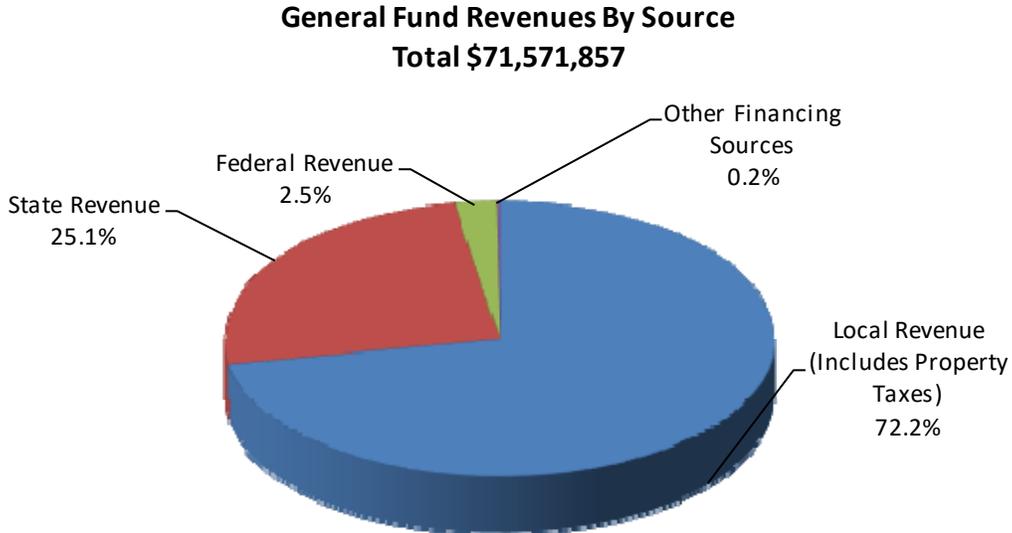
Operating revenues decreased by \$1.7 million during fiscal year 2018-2019 as a result of a combination of a net decrease in total grants and contracts revenue of \$2.1 million, an increase of \$571 thousand of net tuition and fees, and lower sales at the college bookstore. Total operating expenditures increased by \$1.9 million. Salaries and benefits increased by \$1.6 million. The increase is primarily due to step/column/longevity salary increases, increases to the District's STRS and PERS contribution rates, and a negotiated salary increase.

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:

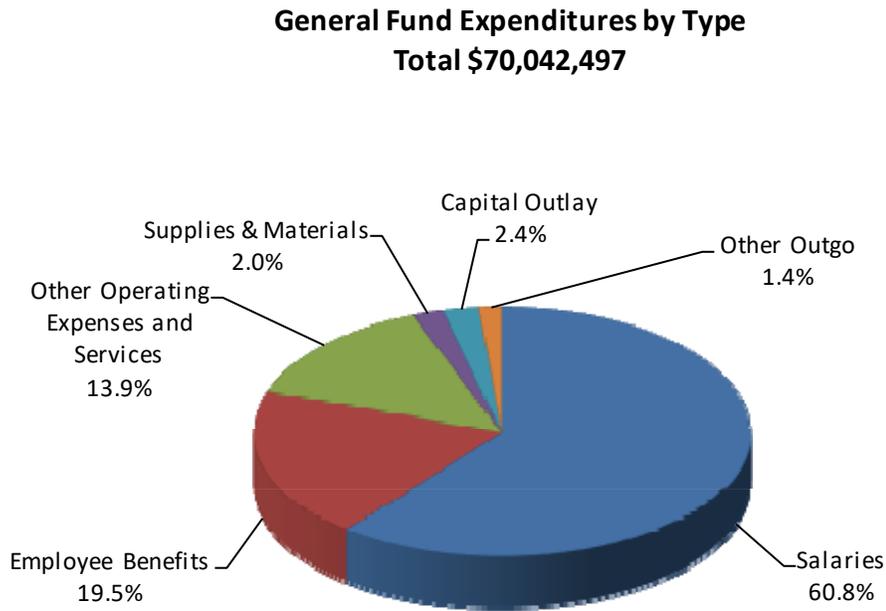


SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

General Fund Expenditures by Type

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



SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

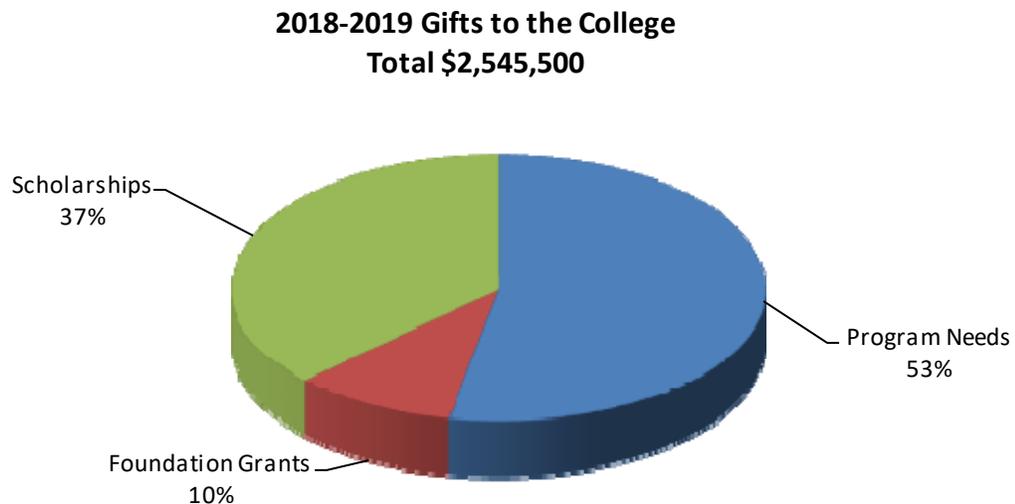
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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, 2019:

Functional Classifications	Salaries	Employee Benefits	Supplies, Materials, Other Operating Expenses, Services, and Student Aid	Depreciation	Total
Instructional	\$ 21,120,560	\$ 8,093,344	\$ 1,152,817	\$ -	\$ 30,366,721
Academic support	3,155,226	1,107,787	265,380	-	4,528,393
Student services	7,557,982	2,969,731	804,291	-	11,332,004
Operation and maintenance of plant	2,170,566	1,161,422	1,219,005	-	4,550,993
Institutional support	6,916,557	3,524,654	2,725,559	-	13,166,770
Community services and economic development	446,787	128,476	144,477	-	719,740
Auxiliary operations	2,250,331	593,526	688,565	-	3,532,422
Student aid	-	-	13,695,614	-	13,695,614
Other outgo	-	-	10,506,400	-	10,506,400
Depreciation	-	-	-	4,847,148	4,847,148
Total	\$ 43,618,009	\$ 17,578,940	\$ 31,202,108	\$ 4,847,148	\$ 97,246,205

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Condensed Statement of Cash Flows for the Years Ended June 30, 2019 and 2018

Amounts in thousands

	<u>2019</u>	<u>2018</u>
Cash Provided by (Used in)		
Operating activities	\$ (69,747)	\$ (64,386)
Noncapital financing activities	72,197	59,546
Capital financing activities	(20,006)	47,801
Investing activities	-	495
Net Change in Cash and Cash Equivalents	<u>(17,556)</u>	<u>43,456</u>
Cash and Cash Equivalents, Beginning of Year	105,842	62,386
Cash and Cash Equivalents, End of Year	<u>\$ 88,286</u>	<u>\$ 105,842</u>

The previous schedule has been prepared from the Statement of Cash Flows presented on pages 20 and 21. 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, 2019

As of June 30, 2019, three of four HVAC/roof repairs have been completed, interim housing has been installed and occupied to house the displaced departments while the new buildings are constructed, the 2006 Certificates of Participation have been retired, technology upgrades have been identified and prioritized, and construction on the North County Campus Center and SLO Instructional Building have been completed.

The second bond series of \$73 million was issued in January 2018. Projects scheduled for the second issuance include: Data Center Building, Aquatics Center, North County Early Childhood Education Center, building repairs and upgrades, technology upgrades, and retirement of the 2009 Certificates of Participation. The Aquatics Center was completed in the summer of 2019.

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 Newsom signed AB 74, the Budget Act of 2019. While state revenues continue to increase at a reasonably strong rate, the Governor cautions that this trend is temporary and that the state will experience a slowdown in the coming years. Current year revenues are up primarily due to stock market driven income tax gains, while sales taxes are lower than expected. The Department of Finance notes that current revenue growth may represent an acceleration of activity based on Federal tax cuts and fears of trade and tariff wars. This bump should not be expected to continue.

The Department of Finance (DOF) has produced a long-term forecast which details the extent of the projected slowdown. US Gross Domestic Product growth is pegged at 2.9 percent for 2018, 2.3 percent for 2019, and declining to under two percent in 2021 and beyond. DOF notes that risks to the forecast include a stock market correction, unstable federal policies, a global slowdown and/or a recession. To address this risk, the final budget continues the recent state practice of enhancing budget stability by paying down debt and long-term obligations and increasing the state's Rainy-Day accounts.

In total, state General Fund expenditures for 2019-2020 are estimated at \$143.8 billion, an increase of \$5.8 billion over the prior year budget. The final budget includes a fund balance of \$2.8 billion and the Rainy-Day Fund has grown to \$16.5 billion. While the Governor does propose increasing support for low-income individuals through enhanced tax credits and health care expenditures, many of these programs are intended to be temporary.

Regarding education, the growth in Proposition 98 revenues is relatively consistent with what the State has experienced in recent years. Flat K12 enrollments and modest changes to per-capita income equate to moderate growth of the Proposition 98 minimum guarantee. The May Revision assumes \$81.1 billion in spending for the K14 education, an increase of \$3 billion over the current year.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

California Community Colleges

The major issue facing community colleges continues to be uncertainty over the Student-Centered Funding Formula (SCFF). The formula, first implemented in 2018-2019, faces a crisis of funding as costs to fund the Student Success allocation have far exceeded estimates made at the time of the 2018 Budget Act. The Chancellor's Office will fund districts in 2018-2019 at no less than the hold harmless level, which is equivalent to each district's 2017-2018 level of revenues plus the 2018-2019 COLA of 2.71 percent. Winners in the SCFF formula, many of whom anticipated revenue increases of 15 percent or more, had their revenues constrained at increases of no more than 8.1 percent due to insufficient funding.

Student-Centered Funding Formula Changes (SCFF)

For 2019-2020, several changes have been made to the SCFF. Firstly, a fourth year of hold harmless has been added, so no district will receive less than their 2017-2018 level of revenues as adjusted by annual COLAs through the 2021-2022 fiscal year. Secondly, rather than increase the Student Success allocation to 20 percent in 2020-2021 as initially planned, it will be permanently fixed at 10 percent. At the P1 apportionment, the Chancellor's Office will recalculate rates for the SCFF at 70 percent for the Base allocation, 20 percent for the Supplemental allocation, and 10 percent for the Student Success allocation. These rates will only be adjusted for COLAs in the future. Further, the Student Success allocation will be calculated based on a three-year average of each of the measures in the allocation. Thirdly, the Student Success allocation will count only the highest of all awards earned by a student during the academic year. The district assumes a hold harmless level of funding in 2019-2020 which includes a COLA of 3.26 percent.

Pension Relief

The final budget includes two initiatives to address pension costs:

- One-time payments of \$1.6 billion to CalSTRS and \$660 million to CalPERS from the state General Fund to reduce the K14 share of unfunded pension liabilities. This should have the impact of reducing district contribution in future years.
- The final budget also provides funds to directly mitigate district contributions to CalSTRS and CalPERS in the 2019-2020 and 2020-2021 fiscal years. Specifically, the state agreed to pay \$356 million in 2019-2020 and \$250 million in 2020-2021 to reduce CalSTRS employer contribution rates to 17.1 percent and 18.4 percent, respectively. The state further agreed to pay \$144 million in 2019-2020 and \$100 million in 2020-2021 to reduce CalPERS employer contribution rates to 19.7 percent and 22.7 percent, respectively. These payments provide relief to the district's budget, though only on a short-term basis.

California Promise Expansion

Another major proposal approved in the final budget is the expansion of the California Promise to a second year. The state provided \$43 million to support first-time, full-time California students in their second year of attendance.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Challenges Ahead for the District

The district will need to carefully monitor changes to the SCFF over the coming year. We continue to see a decline in our core FTES, and the contribution rates for the pension systems, especially CalPERS, are scheduled to climb through the next decade. Further, the Department of Finance and other forecasting agencies are growing increasingly concerned about the possibility of a recession.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the San Luis Obispo County Community College District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2019**

ASSETS

Current Assets

Cash and cash equivalents - unrestricted	\$ 878,298
Investments - unrestricted	10,963,287
Investments - restricted	76,444,196
Accounts receivable	6,042,268
Student receivables, net	257,249
Due from fiduciary funds	260,000
Prepaid expenses	108,953
Total Current Assets	<u>94,954,251</u>

Noncurrent Assets

Capital Assets	
Nondepreciable capital assets	14,662,704
Depreciable capital assets, net of depreciation	162,252,135
Total Noncurrent Assets	<u>176,914,839</u>
TOTAL ASSETS	<u>271,869,090</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	<u>18,425,297</u>
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LIABILITIES

Current Liabilities

Accounts payable	8,973,263
Accrued interest payable	2,228,686
Unearned revenue	5,381,159
Current portion of long-term obligations other than pensions	7,734,055
Total Current Liabilities	<u>24,317,163</u>

Noncurrent Liabilities

Noncurrent portion of long-term obligations other than pensions	134,064,683
Aggregate net pension obligation	65,343,367
Total Noncurrent Liabilities	<u>199,408,050</u>
TOTAL LIABILITIES	<u>223,725,213</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to postemployment benefits (OPEB) liability	8,682
Deferred inflows of resources related to pensions	7,019,153
Total Deferred Inflows of Resources	<u>7,027,835</u>

NET POSITION

Net investment in capital assets	86,209,904
Restricted for:	
Debt service	20,792,668
Capital projects	454,878
Educational programs	1,168,258
Other activities	170,195
Unrestricted deficit	(49,254,564)
TOTAL NET POSITION	<u>\$ 59,541,339</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, 2019

OPERATING REVENUES

Student Tuition and Fees	\$ 11,220,565
Less: Scholarship discounts and allowances	(4,318,296)
Net tuition and fees	6,902,269
Grants and Contracts, Noncapital	
Federal	1,768,046
State	7,385,292
Local	3,048,713
Total grants and contracts, noncapital	12,202,051
Auxiliary Enterprise Sales and Charges	
Bookstore	1,597,016
Other Operating Revenues	509,723
TOTAL OPERATING REVENUES	21,211,059

OPERATING EXPENSES

Salaries	43,618,009
Employee benefits	17,578,940
Supplies, materials, and other operating expenses and services	17,506,494
Student financial aid	13,695,614
Depreciation	4,847,148
TOTAL OPERATING EXPENSES	97,246,205
OPERATING LOSS	(76,035,146)

NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	5,675,880
Local property taxes, levied for general purposes	42,099,713
Local property taxes levied for capital debt	12,270,963
Federal financial aid grants, noncapital	11,955,745
State financial aid grants, noncapital	1,739,869
State taxes and other revenues	6,833,849
Investment income	1,377,025
Interest expense on capital related debt	(4,845,047)
Investment income on capital asset-related debt	358,742
Other nonoperating revenues	570,095
TOTAL NONOPERATING REVENUES (EXPENSES)	78,036,834

INCOME BEFORE OTHER REVENUES

2,001,688

OTHER REVENUES (LOSSES)

Local revenues, capital	110,488
Loss on disposal of capital assets	(1,568)
TOTAL OTHER REVENUES (LOSSES)	108,920

CHANGE IN NET POSITION

2,110,608

NET POSITION, BEGINNING OF YEAR

57,430,731

NET POSITION, END OF YEAR

\$ 59,541,339

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 7,174,263
Federal and State grants and contracts	11,113,281
Payments of student financial aid	(13,695,614)
Payments to vendors for supplies and services	(16,889,557)
Payments to or on behalf of employees	(59,556,933)
Auxiliary enterprise sales and charges	2,106,739
Net Cash Flows From Operating Activities	<u>(69,747,821)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	6,833,849
Federal and State financial aid grants	14,993,895
Property taxes - nondebt related	42,099,713
State taxes and other apportionments	8,056,406
Other nonoperating revenues	213,503
Net Cash Flows From Noncapital Financing Activities	<u>72,197,366</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Acquisition and construction of capital assets	(22,279,097)
Local revenue, capital projects	110,488
Property taxes - related to capital debt	12,270,963
Principal paid on capital debt	(6,886,342)
Interest paid on capital debt	(3,221,872)
Net Cash Flows From Capital Financing Activities	<u>(20,005,860)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS

(17,556,315)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

105,842,096

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 88,285,781

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, 2019**

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

Operating Loss	\$ (76,035,146)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation	4,847,148
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows	
Receivables and student receivables, net	(969,491)
Prepaid expenses and other assets	361,203
Accounts payable and accrued liabilities	(222,617)
Unearned revenue	152,715
Deferred outflows of resources related to pensions	442,837
Deferred inflows of resources related to OPEB	8,682
Deferred inflows of resources related to pensions	1,639,551
Aggregate net pension obligation	52,753
Aggregate net OPEB liability	(31,082)
Compensated absences, compensatory time, load banking, and PARS Supplemental Retirement Plan	5,626
Total Adjustments	<u>6,287,325</u>
Net Cash Flows From Operating Activities	<u><u>\$ (69,747,821)</u></u>

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

Cash in banks	\$ 878,298
Cash in County Treasury	87,407,483
Total Cash and Cash Equivalents	<u><u>\$ 88,285,781</u></u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 1,575,237</u></u>
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The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Trust Funds	STRS and PERS Investment Trust	Agency Funds
ASSETS			
Investments	\$ 315,749	\$ 3,255,388	\$ 327,243
Accounts receivable	261,340	-	-
Total Assets	<u>577,089</u>	<u>3,255,388</u>	<u>\$ 327,243</u>
LIABILITIES			
Accounts payable	1,569	-	\$ 5,985
Due to primary government	260,000	-	-
Due to student groups	-	-	321,258
Total Liabilities	<u>261,569</u>	<u>-</u>	<u>\$ 327,243</u>
NET POSITION			
Restricted	-	3,255,388	
Unrestricted	315,520	-	
Total Net Position	<u>\$ 315,520</u>	<u>\$ 3,255,388</u>	

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

	Trust Funds	STRS and PERS Investment Trust
ADDITIONS		
Local revenues	\$ 807,993	\$ 223,790
DEDUCTIONS		
Classified salaries	21,515	-
Employee benefits	1,284	-
Books and supplies	17,416	-
Services and operating expenditures	79,129	-
Administrative expenses	-	7,701
Capital outlay	68,463	-
Total Deductions	187,807	7,701
EXCESS OF REVENUES OVER EXPENSES	620,186	7,701
OTHER FINANCING USES		
Other uses	(633,786)	-
CHANGE IN NET POSITION	(13,600)	216,089
NET POSITION - BEGINNING OF YEAR	329,120	3,039,299
NET POSITION - END OF YEAR	\$ 315,520	\$ 3,255,388

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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, 2019, is as follows:

Condensed Statement of Net Position

ASSETS

Investments	\$ -
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NET POSITION

Restricted for:	
Debt services	\$ -

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

NONOPERATING REVENUES

Investment income	\$ 2,945
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TRANSFER OUT	<u>(124,336)</u>
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CHANGE IN NET POSITION	(121,391)
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NET POSITION, BEGINNING OF YEAR	<u>121,391</u>
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NET POSITION, END OF YEAR	<u>\$ -</u>
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SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. This presentation provides a comprehensive government-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency and intra-fund transactions have been eliminated.

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

Investments held at June 30, 2019, 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 Investments

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$2,749,227 for the year ended June 30, 2019.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Prepaid Expenses

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

Debt Premiums

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

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, building and land improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Donated capital assets are recorded at acquisition 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 OPEB and pension related items.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Compensated Absences

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 general obligation bonds, notes payable, compensated absences, compensatory time, load banking, capital leases, PARS Supplemental Retirement Plan, the aggregate net OPEB liability, and the aggregate net pension obligation with maturities greater than one year.

Net Position

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The government-wide financial statements report \$22,585,999 of restricted net position.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Operating Revenues and Expenses

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

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

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

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

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

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

State Apportionments

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

Property Taxes

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

The voters of the District passed a General Obligation Bond in November 2014 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected as noted above and remitted to the District when collected.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Scholarships, Discounts, and Allowances

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

Federal Financial Assistance Programs

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

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 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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The District has implemented the provisions of this Statement as of June 30, 2019.

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

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

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

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

The District has implemented the provisions of this Statement as of June 30, 2019.

New Accounting Pronouncements

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 the reporting periods beginning after December 15, 2018. Early implementation is encouraged.

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged.

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The District is considered to be an involuntary participant in an external investment pool. 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, 2019

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, 2019, consist of the following:

Primary government	\$ 88,285,781
Fiduciary funds	3,898,380
Total Deposits and Investments	<u>\$ 92,184,161</u>
Cash on hand and in banks	\$ 868,298
Cash in revolving	10,000
Investments	91,305,863
Total Deposits and Investments	<u>\$ 92,184,161</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 mutual funds. The District maintains an investment of \$88,050,475 with the San Luis Obispo County Investment Pool with a weighted maturity of 301 days. In addition, the District also has an investment of \$3,255,388 in Mutual Funds with Vanguard.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Luis Obispo County Investment Pool was rated by Fitch Ratings as AA Af/S1. The Vanguard Mutual Funds were not rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District's bank balance was \$874,472. Of this balance, \$543,748 was exposed to custodial credit risk because it was uninsured but is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

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

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

Uncategorized - Investments in the San Luis Obispo County Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2019:

Investment Type	Fair Value	Level 1	Uncategorized
		Inputs	
San Luis Obispo County Investment Pool	\$ 88,464,316	\$ -	\$ 88,464,316
Vanguard Mutual Funds	3,255,388	3,255,388	-
Total	<u>\$ 91,719,704</u>	<u>\$ 3,255,388</u>	<u>\$ 88,464,316</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, 2019**

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019, 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	\$ 777,775
State Government	
Categorical aid	961,816
Lottery	413,344
Other State	389,531
Local Sources	
Foundation	962,505
Interest and other local sources	2,537,297
Total	<u>\$ 6,042,268</u>
Student receivables	\$ 3,006,476
Less allowance for bad debt	<u>(2,749,227)</u>
Student receivables, net	<u>\$ 257,249</u>
	<u>Fiduciary Funds</u>
Other local sources	<u>\$ 261,340</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Capital Assets Not Being Depreciated				
Land	\$ 1,216,661	\$ -	\$ -	\$ 1,216,661
Construction in progress	56,325,219	9,545,319	52,424,495	13,446,043
Total Capital Assets Not Being Depreciated	<u>57,541,880</u>	<u>9,545,319</u>	<u>52,424,495</u>	<u>14,662,704</u>
Capital Assets Being Depreciated				
Land improvements	15,675,069	10,347,437	-	26,022,506
Buildings and improvements	139,833,725	53,025,841	19,804	192,839,762
Portable buildings	2,325,659	-	-	2,325,659
Equipment	5,154,932	373,407	82,068	5,446,271
Technology equipment	8,443,145	663,115	263,134	8,843,126
Furniture and fixtures	152,442	-	152,442	-
Vehicles	1,701,783	100,964	-	1,802,747
Total Capital Assets Being Depreciated	<u>173,286,755</u>	<u>64,510,764</u>	<u>517,448</u>	<u>237,280,071</u>
Total Capital Assets	<u>230,828,635</u>	<u>74,056,083</u>	<u>52,941,943</u>	<u>251,942,775</u>
Less Accumulated Depreciation				
Land improvements	14,388,864	621,663	-	15,010,527
Buildings and improvements	42,001,806	3,360,053	18,235	45,343,624
Portable buildings	886,455	101,369	-	987,824
Equipment	3,995,357	276,066	82,067	4,189,356
Technology equipment	8,095,546	373,433	263,136	8,205,843
Furniture and fixtures	152,442	-	152,442	-
Vehicles	1,176,198	114,564	-	1,290,762
Total Accumulated Depreciation	<u>70,696,668</u>	<u>4,847,148</u>	<u>515,880</u>	<u>75,027,936</u>
Net Capital Assets	<u>\$ 160,131,967</u>	<u>\$ 69,208,935</u>	<u>\$ 52,426,063</u>	<u>\$ 176,914,839</u>

Depreciation expense for the year was \$4,847,148.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consisted of the following:

	<u>Primary Government</u>
Vendor payables	\$ 2,054,773
Apportionment	2,791,265
Construction	2,941,455
Accrued payroll and benefits	599,826
Instructional service agreements	585,944
Total	<u>\$ 8,973,263</u>
	<u>Fiduciary Funds</u>
Other	<u>\$ 7,554</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2019, consisted of the following:

	<u>Primary Government</u>
State categorical aid	\$ 4,022,081
Student tuition and fees and other	1,285,852
Other	73,226
Total	<u>\$ 5,381,159</u>

NOTE 9 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the primary government and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2019, the fiduciary funds owed the primary government \$260,000.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2018-2019 fiscal year, there were no transfers between the primary government and fiduciary funds.

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2018-2019 fiscal year consisted of the following:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
Bonds and Notes Payable					
General Obligation Bond - Series A	\$ 59,425,000	\$ -	\$ 6,325,000	\$ 53,100,000	\$ 465,000
General Obligation Bond - Series B	73,000,000	-	-	73,000,000	7,025,000
Unamortized Bond Premium	12,631,100	-	531,166	12,099,934	-
Notes payable	7,692	-	7,692	-	-
Total Bonds and Notes Payable	<u>145,063,792</u>	<u>-</u>	<u>6,863,858</u>	<u>138,199,934</u>	<u>7,490,000</u>
Other Obligations					
Compensated absences	1,452,234	94,954	-	1,547,188	-
Compensatory time	40,397	10,006	-	50,403	-
Load banking	198,015	121,452	-	319,467	-
Capital leases	94,755	-	22,484	72,271	23,269
PARS Supplemental Retirement Plan	1,103,930	-	220,786	883,144	220,786
Aggregate net OPEB liability	757,413	67,482	98,564	726,331	-
Aggregate net pension obligation	65,290,614	52,753	-	65,343,367	-
Total Other Obligations	<u>68,937,358</u>	<u>346,647</u>	<u>341,834</u>	<u>68,942,171</u>	<u>244,055</u>
Total Long-Term Obligations	<u>\$ 214,001,150</u>	<u>\$ 346,647</u>	<u>\$ 7,205,692</u>	<u>\$ 207,142,105</u>	<u>\$ 7,734,055</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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. The note payable is paid from resources of the unrestricted General Fund. Compensated absences, compensatory time, the PARS Supplemental Retirement, and the aggregate net pension obligation payments are employee related and are paid in the funds where the employee's payroll is paid. The aggregate net OPEB liability, capital leases, and load banking are paid by the unrestricted General Fund.

Bonded Debt

General obligation bonds were approved by a local election on November 4, 2014. The total amount approved by the voters was \$275,000,000 to finance the repair, upgrading, acquisition, construction, and equipping of certain District property and facilities. A portion of the proceeds were used to pay off the District's 2006 Certificates of Participation in February 2015 and pay off the District's 2009 Certificates of Participation in January 2018.

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

On February 18, 2015, the District issued the Election of 2014 General Obligation Bonds, Series A and Series A-1 in the amount of \$75,000,000. The bonds mature beginning August 1, 2016 through August 1, 2040, with interest rates ranging from 2.00 percent to 5.00 percent. At June 30, 2019, the principal balance outstanding was \$53,100,000, and the unamortized premium was \$5,054,374. Premiums are amortized over the life of the bonds as a component of interest expense on the bonds.

Election of 2014 General Obligation Bonds, Series B

On January 18, 2018, the District issued the Election of 2014 General Obligation Bonds, Series B in the amount of \$73,000,000. The bonds mature beginning August 1, 2018 through August 1, 2043, with interest rates ranging from 3.00 percent to 5.00 percent. At June 30, 2019, the principal balance outstanding was \$73,000,000, and the unamortized premium was \$7,045,560. 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, 2018	Issued	Redeemed	Outstanding June 30, 2019
2/18/2015	2014 Series A and A-1	8/1/2040	2.00% - 5.00%	\$ 75,000,000	\$ 59,425,000	\$ -	\$ 6,325,000	\$ 53,100,000
1/18/2018	2014 Series B	8/1/2043	3.00% - 5.00%	73,000,000	73,000,000	-	-	73,000,000
					<u>\$ 132,425,000</u>	<u>\$ -</u>	<u>\$ 6,325,000</u>	<u>\$ 126,100,000</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2020	\$ 465,000	\$ 2,241,871	\$ 2,706,871
2021	570,000	2,226,973	2,796,973
2022	685,000	2,209,247	2,894,247
2023	805,000	2,187,634	2,992,634
2024	935,000	2,161,870	3,096,870
2025-2029	7,025,000	10,080,549	17,105,549
2030-2034	12,480,000	7,716,250	20,196,250
2035-2039	19,785,000	4,176,300	23,961,300
2040-2041	10,350,000	421,800	10,771,800
Total	<u>\$ 53,100,000</u>	<u>\$ 33,422,494</u>	<u>\$ 86,522,494</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2020	\$ 7,025,000	\$ 2,959,500	\$ 9,984,500
2021	7,290,000	2,673,200	9,963,200
2022	5,525,000	2,389,275	7,914,275
2023	245,000	2,245,025	2,490,025
2024	415,000	2,228,525	2,643,525
2025-2029	3,965,000	10,663,875	14,628,875
2030-2034	8,100,000	9,185,000	17,285,000
2035-2039	13,720,000	6,786,250	20,506,250
2040-2044	26,715,000	3,050,700	29,765,700
Total	<u>\$ 73,000,000</u>	<u>\$ 42,181,350</u>	<u>\$ 115,181,350</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. As of June 30, 2019, the notes payable were paid off in full.

Compensated Absences and Compensatory Time

Compensated absences and compensatory time at June 30, 2019, are \$1,547,188 and \$50,403, respectively.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, is \$319,467.

Capital Leases

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

	Police Vehicles
Balance, July 1, 2018	\$ 103,164
Payments	25,791
Balance, June 30, 2019	<u>\$ 77,373</u>

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

Year Ending June 30,	Lease Payment
2020	\$ 25,791
2021	25,791
2022	25,791
Total	<u>77,373</u>
Less: Amount Representing Interest	<u>(5,102)</u>
Present Value of Minimum Lease Payments	<u>\$ 72,271</u>

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

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

Vehicles	\$ 142,272
Less: Accumulated Depreciation	<u>(53,351)</u>
	<u>\$ 88,921</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

PARS Supplemental Retirement Plan

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

The District will fund the supplemental benefits as follows:

Year Ending June 30,	Payments
2020	\$ 220,786
2021	220,786
2022	220,786
2023	220,786
Total	<u>\$ 883,144</u>

Aggregate Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2019, the District reported an aggregate net OPEB liability, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Aggregate Net OPEB Liability	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 480,251	\$ 8,682	\$ 36,266
Medicare Premium Payment (MPP) Program	246,080	-	(58,666)
Total	<u>\$ 726,331</u>	<u>\$ 8,682</u>	<u>\$ (22,400)</u>

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Management of the plan is vested in the District management.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

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

Benefits Provided

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

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed \$30,404 to the Plan, in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of \$480,251 was measured as of June 30, 2018, and was determined by an actuarial roll-forward valuation as of that June 30, 2017.

Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent
Investment rate of return	3.80 percent
Healthcare cost trend rates	4.00 percent

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 452,667
Service cost	49,910
Interest	17,572
Changes of assumptions	(9,494)
Benefit payments	(30,404)
Net change in total OPEB liability	27,584
Balance at June 30, 2018	<u>\$ 480,251</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.50 percent to 3.80 percent since the previous valuation. There were no changes to benefit terms since the previous valuation.

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.80%)	\$ 510,223
Current discount rate (3.80%)	480,251
1% increase (4.80%)	452,478

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

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

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3.00%)	\$ 449,463
Current healthcare cost trend rate (4.00%)	480,251
1% increase (5.00%)	511,554

Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported deferred inflows of resources as follows:

	<u>Deferred Inflows of Resources</u>
Changes of Assumptions	<u>\$ 8,682</u>

The deferred inflows of resources related to changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits as of the beginning of the measurement period. The EARSL for the measurement period is 12.9 years, and the deferred inflows or resources will be recognized in OPEB expenses as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2020	\$ (812)
2021	(812)
2022	(812)
2022	(812)
2023	(812)
Thereafter	(4,622)
	<u>\$ (8,682)</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Medicare Premium Payment (MPP) Program

Plan Description

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

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

Contributions

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

Net OPEB Liability and OPEB Expense

At June 30, 2019, the District reported a liability of \$246,080 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2018 and June 30, 2017, was 0.0643 percent and 0.0724 percent, respectively, resulting in a net decrease in the proportionate share of 0.0081 percent.

For the year ended June 30, 2019, the District recognized OPEB expense of (\$58,666).

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Actuarial Methods and Assumptions

The June 30, 2018 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018, using the assumptions listed in the following table:

Measurement Date	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.87%	3.58%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2017, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459 or an average of 0.27 percent of the potentially eligible population (171,593).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2018, is 3.87 percent. The MPP Program is funded on a pay-as-you-go basis as described in Note 2, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.87%)	\$ 272,177
Current discount rate (3.87%)	246,080
1% increase (4.87%)	222,517

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

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

Medicare Costs Trend Rates	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 224,400
Current Medicare costs trend rates (3.7% Part A and 4.1% Part B)	246,080
1% increase (4.7% Part A and 5.1% Part B)	269,397

Aggregate Net Pension Obligation

The District's aggregate net pension obligation for the year ended June 30, 2019, was \$65,343,367. See Note 12 for additional information regarding the District's net pension liability and the employee retirement plans.

NOTE 11 - RISK MANAGEMENT

Property and Liability Insurance Coverages

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

Joint Powers Authority Risk Pools

During fiscal year ended June 30, 2019, the District contracted with the Bay Area Community College District Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Workers' Compensation

For fiscal year 2018-2019, the District participated in the Self-Insurance Program for Employees (SIPE) Joint Powers Authority (JPA), an insurance purchasing pool. The District is self-insured for the first \$10,000 of each workers' compensation claim. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

Employee Medical Benefits

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

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

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2019, the District reported the net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 32,919,196	\$ 9,285,117	\$ 6,909,991	\$ 3,041,981
CalPERS	32,424,171	9,140,180	109,162	6,136,123
Total	<u>\$ 65,343,367</u>	<u>\$ 18,425,297</u>	<u>\$ 7,019,153</u>	<u>\$ 9,178,104</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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required State contribution rate	9.828%	9.828%

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, 2019, are presented above, and the District's total contributions were \$4,068,950.

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

At June 30, 2019, 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	\$ 32,919,196
State's proportionate share of net pension liability associated with the District	18,847,780
Total	<u>\$ 51,766,976</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, was 0.0358 percent and 0.0400 percent, respectively, resulting in a net decrease in the proportionate share of 0.0042 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$3,041,981. In addition, the District recognized pension expense and revenue of \$2,214,189 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,068,950	\$ -
Net change in proportionate share of net pension liability	-	5,164,224
Differences between projected and actual earnings on the pension plan investments	-	1,267,597
Differences between expected and actual experience in the measurement of the total pension liability	102,081	478,170
Changes of assumptions	5,114,086	-
Total	<u>\$ 9,285,117</u>	<u>\$ 6,909,991</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
2020	\$ 275,231
2021	(199,716)
2022	(1,063,465)
2023	(279,647)
Total	<u>\$ (1,267,597)</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ (156,004)
2021	(156,004)
2022	(156,001)
2023	(7,818)
2024	528,100
Thereafter	(478,500)
Total	<u>\$ (426,227)</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 48,222,771
Current discount rate (7.10%)	32,919,196
1% increase (8.10%)	20,231,048

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, are presented above, and the total District contributions were \$2,974,013.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$32,424,171. The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, was 0.1216 percent and 0.1185 percent, respectively, resulting in a net increase in the proportionate share of 0.0031 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$6,136,123. At June 30, 2019, 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	\$ 2,974,013	\$ -
Net change in proportionate share of net pension liability	537,198	109,162
Differences between projected and actual earnings on the pension plan investments	265,950	-
Differences between expected and actual experience in the measurement of the total pension liability	2,125,609	-
Changes of assumptions	3,237,410	-
Total	<u>\$ 9,140,180</u>	<u>\$ 109,162</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, 2019

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
2020	\$ 967,321
2021	231,326
2022	(741,317)
2023	(191,380)
Total	<u>\$ 265,950</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,575,153
2021	2,368,240
2022	847,662
Total	<u>\$ 5,791,055</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and services

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of Scale MP-2016.

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 47,208,043
Current discount rate (7.15%)	32,424,171
1% increase (8.15%)	20,158,833

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

CalSTRS/CalPERS Irrevocable Trust

During the 2017-2018 fiscal year, the District established an irrevocable trust for the purpose of funding future employer contributions associated with the CalSTRS and CalPERS pension plans. Funds deposited into this trust are not considered "plan assets" for GASB Statement No. 68 reporting; therefore, the balance of the irrevocable trust is not netted against the net pension liability shown on the Statement of Net Position. The balance and activity of the trust is recorded as a fiduciary fund of the District. There were no contributions made to the trust for the year ended June 30, 2019. As of June 30, 2019, the balance of the trust was \$3,255,388.

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, 2019, which amounted to \$1,575,237 (9.828 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, 2019. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of operating revenue and employee benefit expense.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contributions has been recorded in these financial statements.

NOTE 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

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

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

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

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

During the year ended June 30, 2019, the District made payments of \$233,519, \$411,028, \$1,748,598, \$560,964, and \$75,348 to the BACCD, SIPE, SISC III, the California Dental Coalition, and the California Schools Vision Coalition, respectively.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

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, 2019.

Construction Commitments

As of June 30, 2019, 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>
Early Childhood Education Center	\$ 8,834,919	June 30, 2020
1000 Complex Renovation	387,852	October 31, 2019
2000 Complex Renovation	2,933,925	August 31, 2020
Data Center	2,594,993	November 30, 2019
Gym Renovation	100,828	August 31, 2019
Road Repaving Project	313,329	July 31, 2019
	<u>\$ 15,165,846</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 CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019	2018
Total OPEB Liability		
Service cost	\$ 49,910	\$ 48,574
Interest	17,572	14,958
Changes of assumptions	(9,494)	-
Benefit payments	(30,404)	(29,235)
Net changes in total OPEB liability	<u>27,584</u>	<u>34,297</u>
Total OPEB Liability - beginning	452,667	418,370
Total OPEB Liability - ending	<u><u>\$ 480,251</u></u>	<u><u>\$ 452,667</u></u>
Covered payroll	<u>N/A¹</u>	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>	<u>N/A¹</u>

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

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

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2019

Year ended June 30,	<u>2019</u>	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.0643</u>	<u>0.0724</u>
District's proportionate share of the net OPEB liability	<u>\$ 246,080</u>	<u>\$ 304,746</u>
District's covered-employee payroll	<u>N/A¹</u>	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>-0.40%</u>	<u>0.01%</u>

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

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

See accompanying note to required supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0358%</u>	<u>0.0400%</u>
District's proportionate share of the net pension liability	\$ 32,919,196	\$ 37,001,870
State's proportionate share of the net pension liability associated with the District	18,847,780	21,889,994
Total	<u>\$ 51,766,976</u>	<u>\$ 58,891,864</u>
District's covered-employee payroll	<u>\$ 20,676,715</u>	<u>\$ 21,863,394</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>159.21%</u>	<u>169.24%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.1216%</u>	<u>0.1185%</u>
District's proportionate share of the net pension liability	<u>\$ 32,424,171</u>	<u>\$ 28,288,744</u>
District's covered-employee payroll	<u>\$ 16,539,566</u>	<u>\$ 14,786,650</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>196.04%</u>	<u>191.31%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>

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

See accompanying note to required supplementary information.

<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>0.0403%</u>	<u>0.0448%</u>	<u>0.0456%</u>
\$ 32,632,487	\$ 30,184,782	\$ 26,654,408
<u>18,577,093</u>	<u>15,964,422</u>	<u>16,095,083</u>
<u>\$ 51,209,580</u>	<u>\$ 46,149,204</u>	<u>\$ 42,749,491</u>
<u>\$ 21,205,592</u>	<u>\$ 20,502,511</u>	<u>\$ 20,315,806</u>
<u>153.89%</u>	<u>147.22%</u>	<u>131.20%</u>
<u>70%</u>	<u>74%</u>	<u>77%</u>
<u>0.1198%</u>	<u>0.1203%</u>	<u>0.1229%</u>
\$ 23,668,262	\$ 17,731,314	\$ 13,948,691
\$ 14,591,584	\$ 13,149,104	\$ 12,898,243
<u>162.21%</u>	<u>134.85%</u>	<u>108.14%</u>
<u>74%</u>	<u>79%</u>	<u>83%</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019	2018
CalSTRS		
Contractually required contribution	\$ 4,068,950	\$ 2,983,650
Contributions in relation to the contractually required contribution	4,068,950	2,983,650
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 24,993,550</u>	<u>\$ 20,676,715</u>
Contributions as a percentage of covered-employee payroll	<u>16.28%</u>	<u>14.43%</u>
CalPERS		
Contractually required contribution	\$ 2,974,013	\$ 2,568,760
Contributions in relation to the contractually required contribution	2,974,013	2,568,760
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 16,465,580</u>	<u>\$ 16,539,566</u>
Contributions as a percentage of covered-employee payroll	<u>18.062%</u>	<u>15.531%</u>

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

See accompanying note to required supplementary information.

2017	2016	2015
\$ 2,750,415	\$ 2,275,360	\$ 1,820,623
2,750,415	2,275,360	1,820,623
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 21,863,394	\$ 21,205,592	\$ 20,502,511
12.58%	10.73%	8.88%
\$ 2,053,570	\$ 1,728,665	\$ 1,547,781
2,053,570	1,728,665	1,547,781
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 14,786,650	\$ 14,591,584	\$ 13,149,104
13.888%	11.847%	11.771%

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

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

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

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

Changes of Assumptions - The changes of assumptions and other inputs reflect a change in the discount rate from 3.5 percent to 3.8 percent since the previous valuation.

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

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

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

Changes of Assumptions - The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

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

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

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

Changes of Assumptions - 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, 2019

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>
Pete Sysak	President	2022
Dr. Barbara George	Vice President	2020
Patrick Mullen	Member	2022
Angela Mitchell	Member	2020
Mary Strobridge	Member	2020
Lindsay Bachman	Student Trustee	2020

ADMINISTRATION

Dr. Jill Stearns	President and District Superintendent
Dan Troy	Vice President, Administrative Services
Dr. Mark Sanchez	Vice President, Student Services and College Centers
Dr. Deborah Wulff	Vice President, Academic Affairs
Melissa Richerson	Vice President, Human Resources

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

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		\$ 8,423,403
Federal Pell Administrative Allowance	84.063		25,368
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		203,340
Federal Work-Study Program (FWS)	84.033		143,738
Federal Direct Student Loans	84.268		3,329,002
Total Student Financial Assistance Cluster			<u>12,124,851</u>
Integrating Academics, Support and Technology to Increase Student Success	84.031S		695,896
Child Care Access Means Parents In School (CCAMPIS)	84.335A		23,928
Passed through California Community Colleges Chancellor's Office			
Career and Technical Education (CTE), Title I-C	84.048A	18-C01-051	292,195
CTE Transitions	84.048A	18-C01-051	41,377
Passed through California Department of Education			
Adult Basic Education & ELA	84.002A	14508	86,408
Adult Secondary Education	84.002	13978	52,800
English Literacy and Civics Education	84.002A	14109	80,063
Total U.S. Department of Education			<u>13,397,518</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Service Schools and Roads Cluster			
Forest Reserve	10.665		6,007
Total Forest Service Schools and Roads Cluster			<u>6,007</u>
Cultivating Latinx Student Participation and Success in Agriculture Education	10.223		34,813
Total U.S. Department of Agriculture			<u>40,820</u>
U.S. NUCLEAR REGULATORY COMMISSION			
Nuclear Education and Training Scholarship (NTES) Program: Supporting a Nuclear Workforce in Transition	77.008		71,831
NATIONAL SCIENCE FOUNDATION			
Research and Development Cluster			
GIS Technology: Mapping, Data Management, and Work-Based Learning Across Industry Sectors	47.076		52,420
Institutionalizing Undergraduate Research Education to Promote Student Engagement and Success	47.076		4,849
Total Research and Development Cluster			<u>57,269</u>

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019**

Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Education	64.028		\$ 1,876
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Temporary Assistance for Needy Family (TANF) Cluster			
Passed through California Community Colleges Chancellor's Office			
Temporary Assistance for Needy Families (TANF)	93.558	*	52,913
Total TANF Cluster			52,913
Passed through the California Community Colleges Chancellor's Office			
Foster and Kinship Care Education Program	93.658	*	113,549
Total U.S. Department of Health and Human Services			166,462
Total Expenditures of Federal Awards			\$ 13,735,776 [1]

[1] The difference between the Schedule of Expenditures of Federal Awards and Federal revenue reported on the Statement of Revenues, Expenses, and Changes in Net Position is due to differences of \$12,479 related to Federal Pell Administrative Allowance, and (\$494) related to Veterans Education.

* 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, 2019**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Adult Ed Block Grant	\$ 400,706	\$ 69,765	\$ 470,471
Basic Skills	226,487	100,970	327,457
Basic Skills and Student Outcomes Transformation	-	655,288	655,288
CalWORKs	286,713	-	286,713
Campus Safety and Sexual Assault	-	14,889	14,889
Certified Nursing Assistant Grant	22,500	-	22,500
Challenge (SYA) Even Year (Jun18-Dec18)	-	79,308	79,308
Challenge (SYA) Odd Year (Jan19-Jun19)	126,845	-	126,845
Classified Professional Development	47,356	-	47,356
Coop Agencies Resources - Educ (CARE)	130,707	5,000	135,707
CTE Data Unlocked Rancho Santiago Subaward	30,000	-	30,000
Deputy Sector Navigator 2017-18 Augmentation #1	-	29,017	29,017
Deputy Sector Navigator 2017-18 Augmentation #2	35,000	-	35,000
Deputy Sector Navigator 2018-19 Award	200,000	-	200,000
Faculty Entrepreneurship Champion Mini-Grant	7,500	-	7,500
Disabled Students Programs/Svcs (DSPS)	748,743	117	748,860
Econ Oppor Program and Svcs (EOPS)	490,089	-	490,089
Education Futures Mini Grant	150,000	-	150,000
Equal Employment Opportunity	50,000	-	50,000
Financial Aid Technology	181,656	-	181,656
Foster and Kinship Care Education (FKCE)	141,205	-	141,205
Guided Pathways	264,681	203,817	468,498
Hunger-Free Campus	63,681	5,724	69,405
Innovation and Effectiveness Program (IEPI)	-	40,301	40,301
Innovation Award	-	1,805,061	1,805,061
Instructional Equipment	105,990	36,789	142,779
Mental Health Support Funds	107,797	-	107,797
National Summer Transportation Institute	35,000	-	35,000
Nursing Curriculum Mini Grant	2,500	-	2,500
Nursing Enrollment Growth and Retention	120,976	-	120,976
Program Improvement Funding Prop 39	12,000	-	12,000
Promise Scholars Program Replication	25,000	-	25,000
San Luis Obispo Partners in Education CA Career Pathways Trust	-	172,268	172,268
Self-Empl Pathways in GIG Economy	10,000	5,000	15,000
South Central Coast Reg Consortium Teacher Prep Prog	2,000	2,818	4,818
South Central Coast Regional Consortium Strong Workforce Regional	425,176	208,233	633,409

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable (Payable)	Unearned Revenue	Total Revenue	Program Expenditures
\$ 470,471	\$ -	\$ 54,507	\$ 415,964	\$ 415,964
327,457	-	145,921	181,536	181,536
-	655,288	-	655,288	655,288
286,713	(527)	-	286,186	286,186
14,889	-	12,765	2,124	2,124
22,500	-	13,598	8,902	8,902
56,672	-	-	56,672	56,672
34,339	23,816	-	58,155	58,155
47,356	-	47,356	-	-
135,707	-	-	135,707	135,707
30,000	-	-	30,000	30,000
-	29,017	-	29,017	29,017
35,000	-	-	35,000	35,000
80,000	88,023	-	168,023	168,023
7,500	-	6,359	1,141	1,141
748,860	-	-	748,860	748,860
490,089	-	-	490,089	490,089
126,562	-	96,526	30,036	30,036
50,000	-	-	50,000	50,000
181,656	-	72,497	109,159	109,159
141,205	-	-	141,205	141,205
468,498	-	365,013	103,485	103,485
69,405	-	54,177	15,228	15,228
40,301	-	-	40,301	40,301
1,805,061	-	1,702,314	102,747	102,747
142,779	-	31,895	110,884	110,884
107,797	-	104,390	3,407	3,407
-	5,007	-	5,007	5,007
-	2,500	-	2,500	2,500
120,967	-	-	120,967	120,967
-	6,158	-	6,158	6,158
25,000	-	6,829	18,171	18,171
-	122,876	-	122,876	122,876
15,000	-	-	15,000	15,000
4,818	-	-	4,818	4,818
633,409	-	122,799	510,610	510,610

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
South Central Coast Regional Consortium SWP Subaward	\$ 9,000	\$ -	\$ 9,000
Strong Workforce	963,633	22,447	986,080
Strong Workforce Program Projects in Common	4,000	-	4,000
Strong Workforce Teacher Prep Program	8,500	-	8,500
Student Equity Program	882,505	52,786	935,291
Student Financial Aid (BFAP)	267,837	-	267,837
Student Success (Credit)	1,544,191	166,729	1,710,920
Student Success (Non-Credit)	112,198	2,632	114,830
Successful Launch	135,668	-	135,668
Textbook Affordability Program	34,500	-	34,500
Tobacco Law Enforcement Grant	52,972	-	52,972
Veteran's Resource Center Categorical	28,027	26,793	54,820
Veteran's Resource Center Grant	28,600	-	28,600
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
\$ -	\$ 2,192	\$ -	\$ 2,192	\$ 2,192
986,080	-	788,275	197,805	197,805
-	3,000	-	3,000	3,000
5,100	-	3,790	1,310	1,310
935,291	-	176,091	759,200	759,200
267,837	-	-	267,837	267,837
1,710,920	-	127,622	1,583,298	1,583,298
114,830	-	10,214	104,616	104,616
110,894	20,356	-	131,250	131,250
29,325	-	12,935	16,390	16,390
-	2,502	-	2,502	2,502
54,820	-	36,698	18,122	18,122
40,000	-	29,510	10,490	10,490
21,419	1,081	-	22,500	22,500
<u>\$ 10,996,527</u>	<u>\$ 961,289</u>	<u>\$ 4,022,081</u>	<u>\$ 7,935,735</u>	<u>\$ 7,935,735</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, 2019**

CATEGORIES	*Revised Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2018 only)			
1. Noncredit**	149.27	-	149.27
2. Credit	6.89	-	6.89
B. Summer Intersession (Summer 2019 - Prior to July 1, 2019)			
1. Noncredit**	-	-	-
2. Credit	68.76	-	68.76
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	4,292.48	-	4,292.48
(b) Daily Census Contact Hours	1,110.62	-	1,110.62
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	380.02	-	380.02
(b) Credit	30.85	-	30.85
3. Alternative Attendance Accounting Procedures Courses			
(a) Weekly Census Procedure Courses	883.90	-	883.90
(b) Daily Census Procedure Courses	456.96	-	456.96
D. Total FTES	<u>7,379.75</u>	<u>-</u>	<u>7,379.75</u>
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	-	-	-
F. Basic Skills Courses and Immigrant Education			
1. Noncredit**	402.35	-	402.35
2. Credit	57.97	-	57.97
<u>CCFS-320 Addendum</u>			
CDCP Noncredit FTES	233.35	-	233.35
Centers FTES			
1. Noncredit**	169.03	-	169.03
2. Credit	1,168.49	-	1,168.49

* Recalc report was revised on November 1, 2019.

** 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, 2019

	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	\$ 10,151,418	\$ -	\$ 10,151,418	\$ 10,151,418	\$ -	\$ 10,151,418
Other	1300	8,035,885	-	8,035,885	8,035,885	-	8,035,885
Total Instructional Salaries		18,187,303	-	18,187,303	18,187,303	-	18,187,303
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	4,975,568	-	4,975,568
Other	1400	-	-	-	502,318	-	502,318
Total Noninstructional Salaries		-	-	-	5,477,886	-	5,477,886
Total Academic Salaries		18,187,303	-	18,187,303	23,665,189	-	23,665,189
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	9,691,746	-	9,691,746
Other	2300	-	-	-	418,672	-	418,672
Total Noninstructional Salaries		-	-	-	10,110,418	-	10,110,418
Instructional Aides							
Regular Status	2200	711,929	-	711,929	711,930	-	711,930
Other	2400	288,725	-	288,725	288,725	-	288,725
Total Instructional Aides		1,000,654	-	1,000,654	1,000,655	-	1,000,655
Total Classified Salaries		1,000,654	-	1,000,654	11,111,073	-	11,111,073
Employee Benefits	3000	5,803,944	-	5,803,944	11,343,612	-	11,343,612
Supplies and Material	4000	-	-	-	486,542	-	486,542
Other Operating Expenses	5000	887,879	-	887,879	6,570,912	-	6,570,912
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		25,879,780	-	25,879,780	53,177,328	-	53,177,328

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, 2019

	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
Exclusions							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 220,786	\$ -	\$ 220,786	\$ 220,786	\$ -	\$ 220,786
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	115,800	-	115,800
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	58,438	-	58,438
Objects to Exclude							
Rents and Leases	5060	-	-	-	126,619	-	126,619
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, 2019

	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	\$ -	\$ -	\$ -	\$ 1,633,861	\$ -	\$ 1,633,861
Capital Outlay	6000						
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		220,786	-	220,786	2,155,504	-	2,155,504
Total for ECS 84362, 50 Percent Law		\$ 25,658,994	\$ -	\$ 25,658,994	\$ 51,021,824	\$ -	\$ 51,021,824
Percent of CEE (Instructional Salary Cost/Total CEE)		50.29%		50.29%	100.00%		100.00%
50% of Current Expense of Education					\$ 25,510,912		\$ 25,510,912

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2019.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACCOUNT (EPA)
EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2019**

Activity Classification	Object Code				Unrestricted
EPA Revenue:	8630				\$ 312,107
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 312,107	-	-	\$ 312,107
Total Expenditures for EPA		\$ 312,107	-	-	\$ 312,107
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, 2019**

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

Total Fund Balance

General Fund - unrestricted	\$ 8,056,448	
General Fund - restricted	1,168,258	
Special Revenue Funds	161,426	
Capital Project Funds	48,022,148	
Debt Service Funds	23,021,354	
Internal Service Funds	<u>170,195</u>	
Total Fund Balances		\$ 80,599,829

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:	251,942,775	
Accumulated depreciation is:	<u>(75,027,936)</u>	
Total Capital Assets on the Statement of Net Position		176,914,839

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (2,228,686)

Deferred inflows of resources related to OPEB represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to OPEB at year-end consist of changes of assumptions. (8,682)

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	7,042,963	
Net change in proportionate share of net pension liability	537,198	
Differences between projected and actual earnings on the pension plan investments	265,950	
Differences between expected and actual experience in the measurement of the total pension liability	2,227,690	
Changes of assumptions	<u>8,351,496</u>	
Total Deferred Outflows of Resources Related to Pensions		18,425,297

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, 2019**

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

Net change in proportionate share of net pensions liability	\$ 5,273,386	
Differences between projected and actual earnings on the pension plan investments	1,267,597	
Differences between expected and actual experience in the measurement of the total pension liability	478,170	
Total Deferred Inflows of Resources Related to Pensions	478,170	\$ (7,019,153)

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

Long-term obligations at year-end consist of:

General Obligation Bonds	126,100,000	
Unamortized Bond Premium	12,099,934	
Compensated absences	1,547,188	
Compensatory time	50,403	
Load banking	319,467	
Capital leases	72,271	
PARS supplemental retirement plan	883,144	
Aggregate net OPEB liability	726,331	
Aggregate net pension obligation	65,343,367	(207,142,105)
Total Net Position	65,343,367	\$ 59,541,339

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members as of June 30, 2019.

Schedule of Expenditures of Federal Awards

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

Schedule of Expenditures of State Awards

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

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

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

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

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

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

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

Proposition 30 Education Protection Account (EPA) Expenditure Report

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

Reconciliation of Governmental Funds to the Statement of Net Position

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



INDEPENDENT AUDITOR'S REPORTS



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of San Luis Obispo County Community College District (the District) as of and for the year ended June 30, 2019, 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 20, 2019.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Eide Bailly LLP

Rancho Cucamonga, California
December 20, 2019



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

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

Report on Compliance for Each Major Federal Program

We have audited San Luis Obispo County Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2019. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Eide Bailly LLP

Rancho Cucamonga, California
December 20, 2019



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 2018-2019 California Community Colleges Chancellor's Office *District Audit Manual* that could have a direct and material effect on each of the District's State programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the 2018-2019 California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Basis for Qualified Opinion on Section 479 – To Be Arranged Hours (TBA)

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Section 479 – To Be Arranged Hours (TBA), as identified in finding 2019-001. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Section 479 – To Be Arranged Hours (TBA)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Unmodified Opinion on Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the State programs noted below that were audited for the year ended June 30, 2019, except as described in the State Awards and Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

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

The District did not receive any funding for Proposition 39 Clean Energy Fund; therefore, the compliance tests within this section were not applicable.

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

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

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



Rancho Cucamonga, California
December 20, 2019



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

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

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Qualified</u>
Unmodified for all State programs except for the following State program which was qualified:	

<u>Name of State Program</u>
Section 479 - To Be Arranged
Hours (TBA)

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

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

2019-001 Section 479 - To Be Arranged Hours (TBA)

Criteria or Specific Requirement

California Community Colleges State Chancellor's Office Student Attendance Accounting Manual requires the listing of classes with To Be Arranged (TBA) hours to be listed in the schedule of classes and described in the course outline. The official course outline of record must include the number of TBA hours and specific instructional activities/learning outcomes for TBA hours expected of all students enrolled in the course. Additionally, the TBA hours for student participation are required to be tracked to ensure only actual hours of attendance are claimed for apportionment purposes. Furthermore, students must participate for the required number of TBA hours in a manner consistent with the student attendance accounting method specified for the course.

Condition

The District did not track student participation to make sure that apportionment for TBA hours were claimed for students who have documented zero hours as of the census point for the particular course.

Questioned Costs

There are no questioned costs.

Context

One out of the five courses tested did not meet the Chancellor's Office requirements. The total FTES for this one class was 1.45 FTES. The FTES for these four students amounted to 0.2 FTES. Additionally, we reviewed the remaining TBA courses and noted no other errors.

Effect

The TBA FTES claimed for apportionment are overstated by 0.2 FTES.

Cause

During the fiscal year, four students in the course were claimed on the District's Annual Attendance report. However, these students were not recorded on the attendance roster. It was noted that these students never attended any of the classes therefore were never dropped prior to census date.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

Recommendation

The District should enforce and implement procedures to monitor students who have claimed zero hours or dropped the course as of census date to meet the Chancellor's Office requirements.

Corrective Action Plan

In order to ensure faculty are aware of the requirements, the Assistant Superintendent/Vice President of Academic Affairs will distribute a memo to all faculty teaching classes that include TBA hours of instruction. The memo will be sent out prior to each term and will explain the requirements regarding TBA attendance.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

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

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

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

Criteria or Specific Requirement

34 CFR Section 668.173(b):

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

Condition

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

Questioned Costs

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

Context

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Effect

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

Cause

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

Repeat Finding: No

Recommendation

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

Current Status

Implemented

State Awards Findings

None reported.