SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
June 30, 2017

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

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FINANCIAL STATEMENTS
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For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
San Mateo County Community College District
San Mateo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the fiduciary activities and the discretely presented component unit of San Mateo County Community College District, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise San Mateo County Community College 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 misstatement, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the San Mateo County Community Colleges Educational Housing Corporation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards.*

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 entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the fiduciary activities and the discretely presented component unit of the San Mateo County Community College District, as of June 30, 2017, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the District implemented in the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, "Accounting for Financial Reporting for Postemployment Benefits Other than Pensions". This Statement replaces the requirements of GASB Statements No. 45, "Accounting and Reporting for Employers Post Employment Benefits Other than Pensions", as amended, and GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." Based on the implementation of Statement No. 75, the District's July 1, 2016 net position was restated decreasing net position by $93,008,372 because of the recognition of the net OPEB liability. Note disclosures and required supplementary information requirements about OPEB are also discussed. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 21 and the Schedule of Changes in Net Other Postemployment Benefits (OPEB) Liability and Related Ratios, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 64 to 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Mateo County Community College District's basic financial statements. The accompanying schedule of expenditure 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 Award* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

(Continued)

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditures of federal awards and other supplementary information as listed in the table of contents, except for the Organization, have 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 schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the information on page 68 titled Organization, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information on page 68 titled Organization has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017 on our consideration of San Mateo County Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 San Mateo County Community College District's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 8, 2017

Introduction

The District was established in 1922, and operates three Colleges: Cañada College, College of San Mateo and Skyline College. Located between San Francisco and Silicon Valley, the District Colleges provide community college educational services to residents of the County of San Mateo, California. Combined, the three Colleges of the District serve approximately 40,000 students annually and offer the first two years of college-level instruction in a wide variety of transfer programs as well as more than 120 career and technical education (CTE) programs. Students can earn either Associate in Arts or Science degrees or receive Certificates of Proficiency in their chosen fields. Additionally, Skyline College offers one of only fifteen baccalaureate programs in California Community College System, where students can earn a Bachelor's of Science in Respiratory Care. Distance education courses are available at all three Colleges as well as courses and programs serving concurrently enrolled students. Noncredit, short courses are offered for a fee through the Community Education Program.

This section of The San Mateo County Community College District's (the District) Annual Financial Report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2017. The discussion has been prepared by management and should be read in conjunction with the financial statements and the notes which follow this section.

The annual report consists of three basic financial statements that provide information on the District as a whole:

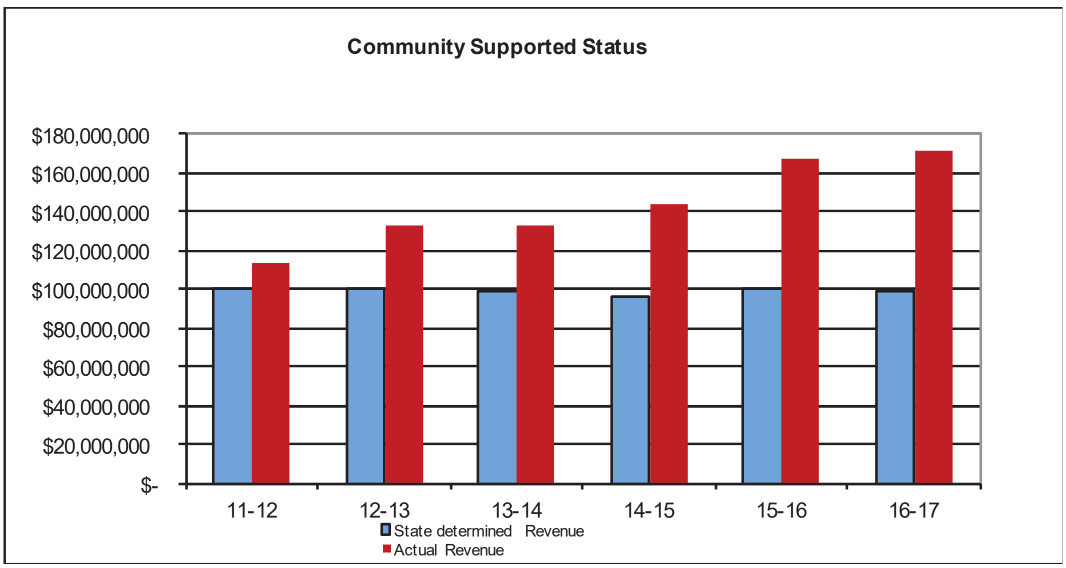
- The Statement of Net Position
- The Statement of Revenues, Expenses, and Change in Net Position
- The Statement of Cash Flows

Each one of these statements will be discussed.

Reporting for the District as a Whole

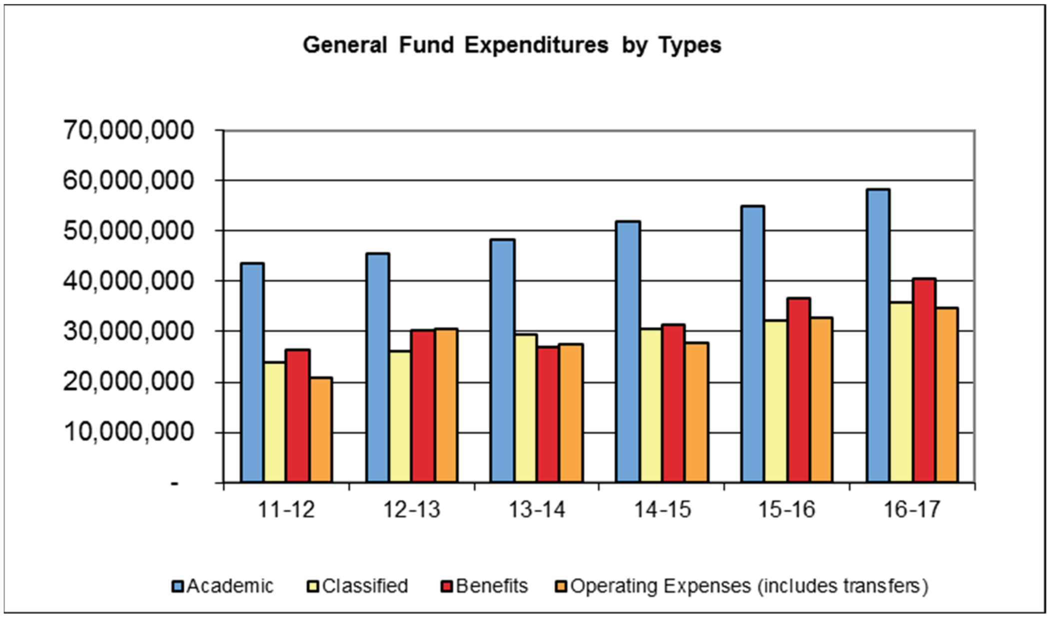
Economic position of the District within the State

The District continues its community–supported status for the seventh year (since 2011-12). When the State sets the District's revenue limit (determining how many students we are funded to serve) and deducts from that revenue limit the local property taxes and student fees, there is no need for State apportionment to sum to our revenue limit. This means that the District has somewhat more resources and is no longer subject to the state borrowing funds by delaying apportionment payments. The District is now firmly in community supported status and anticipates to receive upwards of $46 million in 2017/18 in excess of what the District would have received had we been subject to the state's revenue limit. In addition to an increase in property taxes, the District is receiving funds from the dissolution of Redevelopment Agencies (RDAs). As fewer of the property taxes are being diverted to RDAs, more of them come to the District. The former RDAs are also slowly beginning the process of selling off their property, which brings some one-time funds to District coffers. All in all, the District's revenues have increased and, with a steady real estate market, show every sign of continued increase.



Salaries and Benefits

The expenditure projection for salaries includes annual increases for movement on step and column placements and longevity service increments. Fiscal year 2017-18 includes a salary adjustment for all employee groups. The budget includes January 1, 2018 increases in non-capped health premium rates for employees and retirees. On average, the rates increased 4.5% across all medical plans. Dental and vision insurance premiums remained unchanged. For pensions, the PERS rate increased from 13.89% to 15.53% for classified employees and the STRS rate increased from 12.58% to 14.43% for faculty and other academic employees. The District's Workers' Compensation costs have also remained low allowing the District to reduce internal charge percentage from 0.74% to 0 .71% while Unemployment Insurance Contribution Rate remained unchanged at 0.575%.



Other Postemployment Benefits

To comply with Governmental Accounting Standards Board Statement 45, in 2009-10, the District began charging itself an amount to cover the future retiree medical benefit costs for current employees. These charges appear as part of the benefit expenses in all funds. After making 2017-18 contributions and transfers to the Other Post-Employment Benefits trust (OPEB), the District is projecting to have 97% of its OPEB liability funded by the end of FY 2017/18. The current OPEB Liability as of June 30, 2017 is funded at 83%.

- The District adopted Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2016-17. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

- GASB Statement 75 requires the liability of employers and non-employer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. As a result of GASB 75 implementation District was required to recognize all of the OPEB liability rather than amortize it over 30 years. This resulted in increase in liability and corresponding reduction in Net Position of $93 million.

The District engaged an actuarial service to calculate the Net OPEB Liability as of July 1, 2016. Using a standard actuarial "roll-forward" methodology to estimate the Net OPEB Liability as of June 30, 2017, the amount was $20 million. The District is planning on transferring additional $12.2 million in FY 2017-18 to the Trust Fund. The Fiduciary Net Position of this trust at June 30, 2017 was $97 million. See Note 14 in the Financial Statements for additional detail. In addition, District set aside $8 million in a reserve fund for Post Retirement Benefits to cover retiree health liabilities. These set aside funds as well as Trust Fund proceeds result in District’s OPEB Liability being almost fully funded.

Bond construction

As of June 30, 2017, $501.8 million of the $502 million Measure A November 2005 general obligation (GO) bond (with interest) and $26.7 million of the $388 million Measure H November 2014 GO bond have been spent or encumbered by contract. The projects planned under the 2005 GO bond are substantially completed with students and staff occupying the new and renovated buildings at CSM, Skyline and Cañada College.

CAN B23N – Math, Science & Technology

CAN B1N – Center for Kinesiology & Wellness

Various projects were completed throughout the year including the installation of two athletic Team Houses.

College of San Mateo

CSM New Synthetic Turf for Softball Field

CSM New Synthetic Turf

Various projects were completed throughout the year including campus wide asphalt repairs and north campus tree removal for fire mitigation.

Skyline COLLEGE

SKY B12N – Environmental Science Groundbreaking (October 3, 2017)

SKY B12N – Environmental Science

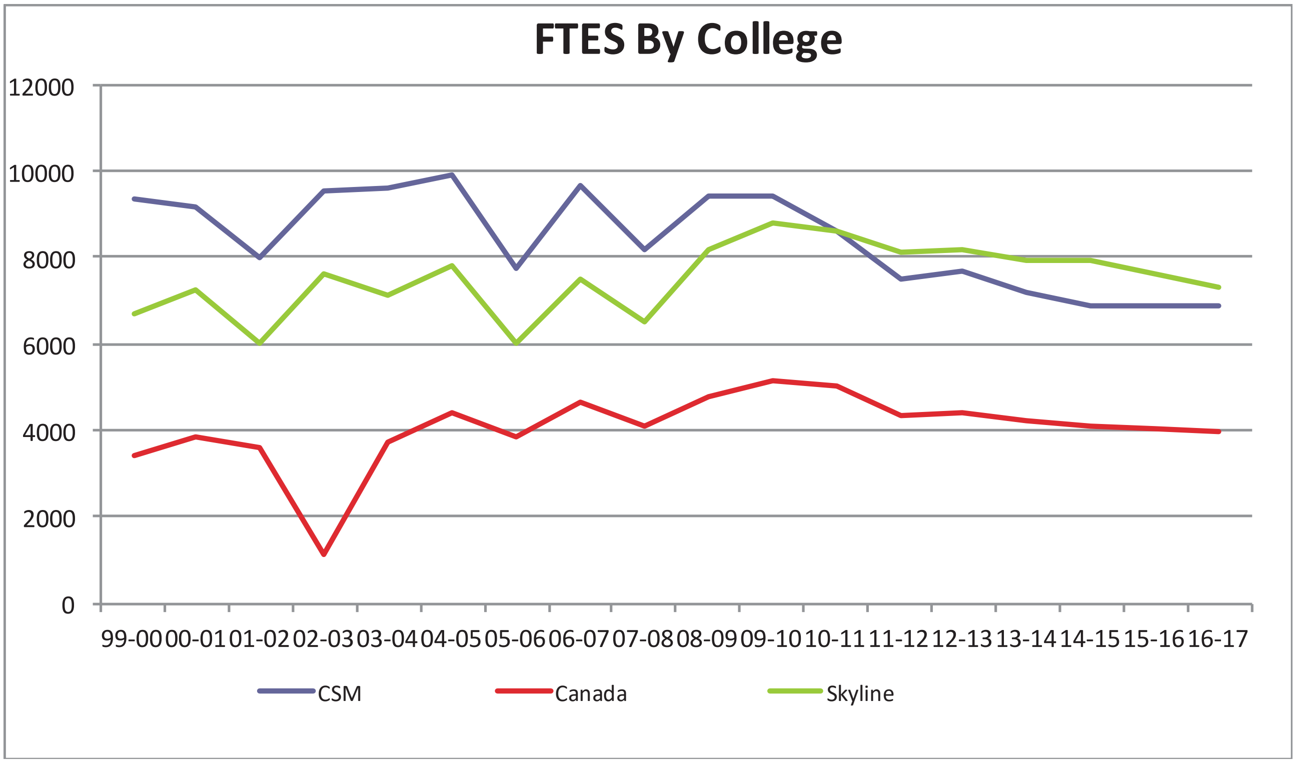
Various projects were completed throughout the year including B5 Learning Commons Classroom and signage upgrade.

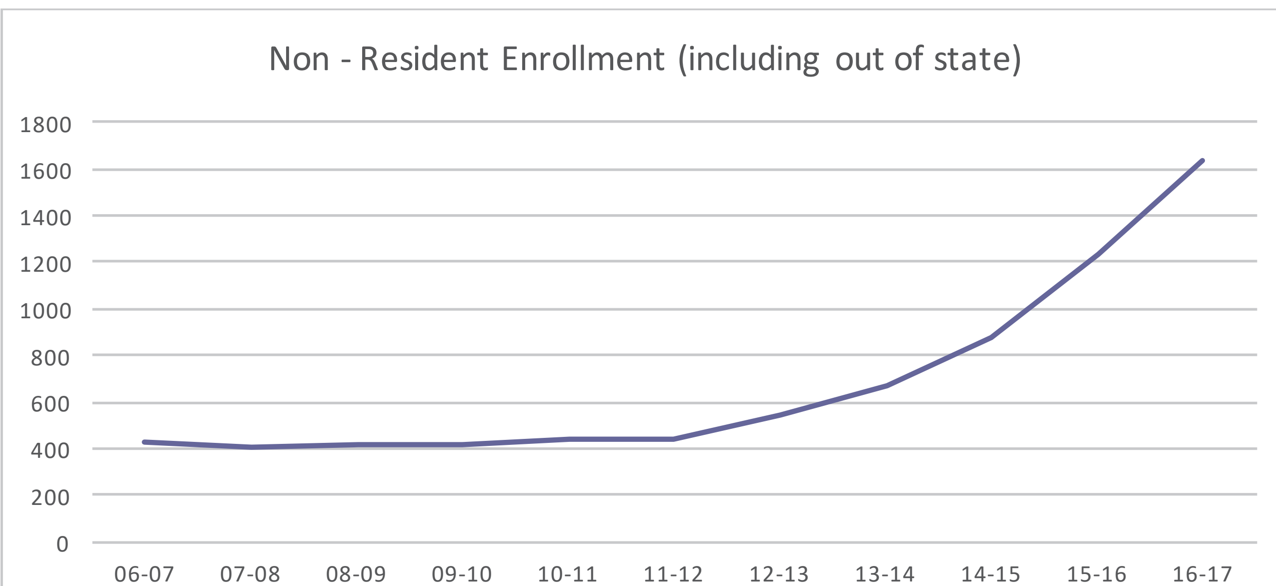
Districtwide:

Various small and medium size projects were completed throughout the year including Districtwide Earthquake Preparedness Program, Emergency Annunciation System Upgrade, Network Core Switch Upgrade, Electric Vehicle Charging Station Expansion, and Classroom Security Hardware Upgrade, Phase 2.

Enrollment:

For the District, enrollment no longer drives funding, since property taxes and fees primarily determine funding. Historically, the District's enrollment goes up when unemployment goes up and goes down when the economy recovers. The District's enrollment declined with the recession, however, because the state cut the funds provided for enrollment. In 2016/17, the District's enrollment continued to decline as was anticipated due to the robust economy in San Mateo County. However, the international student enrollment is increasing rapidly, and we anticipate educating close to 1,200 international students in 2017/18. The chart below shows the history of Full Time Equivalent Students (FTES) in the District.





PERS and STRS Pensions. The District participates in the Public Employees Retirement System (CalPERS) and State Teachers Retirement System (CalSTRS). The District and the employee each pay a percentage of the employee's salary into one of these systems. The State of California has contributed to these systems as well. The rates that are paid are set by the CalPERS Board for CalPERS and by the State legislature for CalSTRS. Over the years, the employee rates for both systems have not changed, but the CalPERS Board has decreased or increased the employer rate as deemed necessary. Now, the employee rate for CalSTRS as well as the employer rates for both systems are increasing each year. At this time, both systems are underfunded in terms of their total liability. Last year, the CalPERS Board projected (subject to change) and the State legislature set CalSTRS employer rates that are projected to near 24% by 2021. We anticipate these increases to cost the District at least $9 million annually by 2021.

	CalPERS	CalSTRS
2013-14	11.44%	8.25%
2014-15	11.77%	8.88%
2015-16	11.85%	10.73%
2016-17	13.89%	12.58%
2017-18	15.53%	14.43%
2018-19	18.10%	16.28%
2019-20	20.80%	18.13%
2020-21	23.80%	19.10%

Effective with our 2014/15 fiscal year, GASB 68 required the District to record its share of the systems' total liabilities for these benefits. The rationale is that the employers all have pooled to create these systems and thus are jointly responsible for any shortfall in the systems' reserves. Each of the systems has less funding than their actuarial studies say is needed to provide benefits for current and future retirees.

	CalSTRS	CalPERS	Total
Net Pension Liability	$ 80,881,000,000	$ 19,750,061,846	
SMCCCD Share	0.092%	0.370%	
SMCCCD Liability	$ 74,125,000	$ 72,981,000	$ 147,106,000

This means that on the District's 6/30/2017 Statement of Net Position, the District will record an additional $23 million of liability.

Table 1 Statement of Net Position

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
AS OF JUNE 30, 2017, and 2016

	(In Thousands) 2017	(In Thousands) 2016
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 70,536	$ 157,375
Accounts Receivable, net	13,777	11,738
Inventories	3,650	3,345
Prepaid Expenditures and other assets	1,822	1,153
Total Current Assets	89,785	173,611
Noncurrent Assets		
Restricted Cash and Cash Equivalents	297,396	212,387
OPEB Asset		59,740
Depreciable Capital Assets, Net	565,366	586,001
Nondepreciable Capital Assets	49,965	37,539
Total Noncurrent Assets	912,727	895,667
TOTAL ASSETS	1,002,512	1,069,278
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	14,212	15,143
Deferred outflows - pensions	33,888	13,210
TOTAL ASSETS & DEFERRED LOSS ON REFUNDING	$ 1,050,612	$ 1,097,631
LIABILITIES		
Current Liabilities		
Accounts Payable & Accrued Expenses	$ 23,061	$ 14,906
Accrued Interest	8,879	9,176
Unearned Revenue	16,403	11,913
Compensated absences	3,308	2,985
Long-Term Debts, Current Portion	43,931	40,350
Total Current Liabilities	95,582	79,330
Noncurrent Liabilities		
Compensated Absences	1,736	1,424
Long Term Debt - Non- Current Portion	815,485	838,753
Net OPEB Liability	19,908	
Aggregate net pension obligation	147,106	123,911
Total Noncurrent Liabilities	984,235	964,088
TOTAL LIABILITIES	1,079,817	1,043,418
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pensions	12,215	12,035
NET POSITION		
Net Invested in capital assets	181,221	160,996
Restricted for:		
Debt Service	51,816	54,209
Capital Projects	13,723	10,685
Educational Programs	12,296	15,057
Other activities	22,033	11,313
Unrestricted	(322,509)	(210,082)
TOTAL NET POSITION	(41,420)	42,178
TOTAL LIABILITIES AND NET POSITION	$ 1,050,612	$ 1,097,631

Net Position

The Statement of Net Position above includes all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting basis used by private companies. Net Position, the difference between total assets and total liabilities, is one way to measure the financial condition of the District. Following are explanatory remarks for the statement:

- Cash and cash equivalents consist of cash in the Local Agency Investment Fund (LAIF) of the State Treasurer's Office, San Mateo County Investment Pool, Special Deposit Bond with Wells Fargo Bank, proceeds from the District's General Obligation construction bond, Institutional Investment Pool and Certificates of Deposit with various banks.

- Accounts receivable primarily consists of revenues from local, state, and federal sources which were not received as of the fiscal year's closing date.

- Inventories and other assets include prepaid expenses and bookstore inventories.

- Capital assets, net of depreciation, are the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation.

- Accounts payable and accrued liabilities consist of benefits, salaries and amounts owed to local vendors which the District incurred but for which payments were not issued as of the end of the fiscal year.

- Unearned revenues represent cash received during the fiscal year from state, federal grants, state apportionment and student fees which were not earned as of the end of the fiscal year.

- Long-term liabilities include obligations to be paid over a period longer than 1 year. The current portion represents payments due within the next 12 months. The District has compensated absences payable, and construction bonds payable.

- According to GASB Statements, equity is reported as Net Position, rather than Fund Balance. The District's Net Position is classified as follows:

    - Net Investment in capital assets, represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
    - Restricted Net Position consists of expendable and nonexpendable portions. Restricted expendable Net Position includes resources which the District is contractually obligated to expend in accordance with restrictions imposed by external third parties.
    - Unrestricted Net Position represents resources used for transactions relating to the educational and general operations of the District.

Statement of Revenues, Expenses and Change in Net Position

The Statement of Revenues, Expenses and Change in Net Position shown below consists of operating and non-operating results for the District. Operating revenues represent all revenues from exchange transactions, in which each party gives and receives essentially equal value. Non-operating revenues include State apportionments, property tax revenues, investment earnings, certain Federal and State grants, entitlements, and donations.

Table 2 – Statement of Revenues, Expenses, and Change in Net Position

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - PRIMARY GOVERNMENT
FOR THE YEARS ENDED JUNE 30, 2017 and 2016

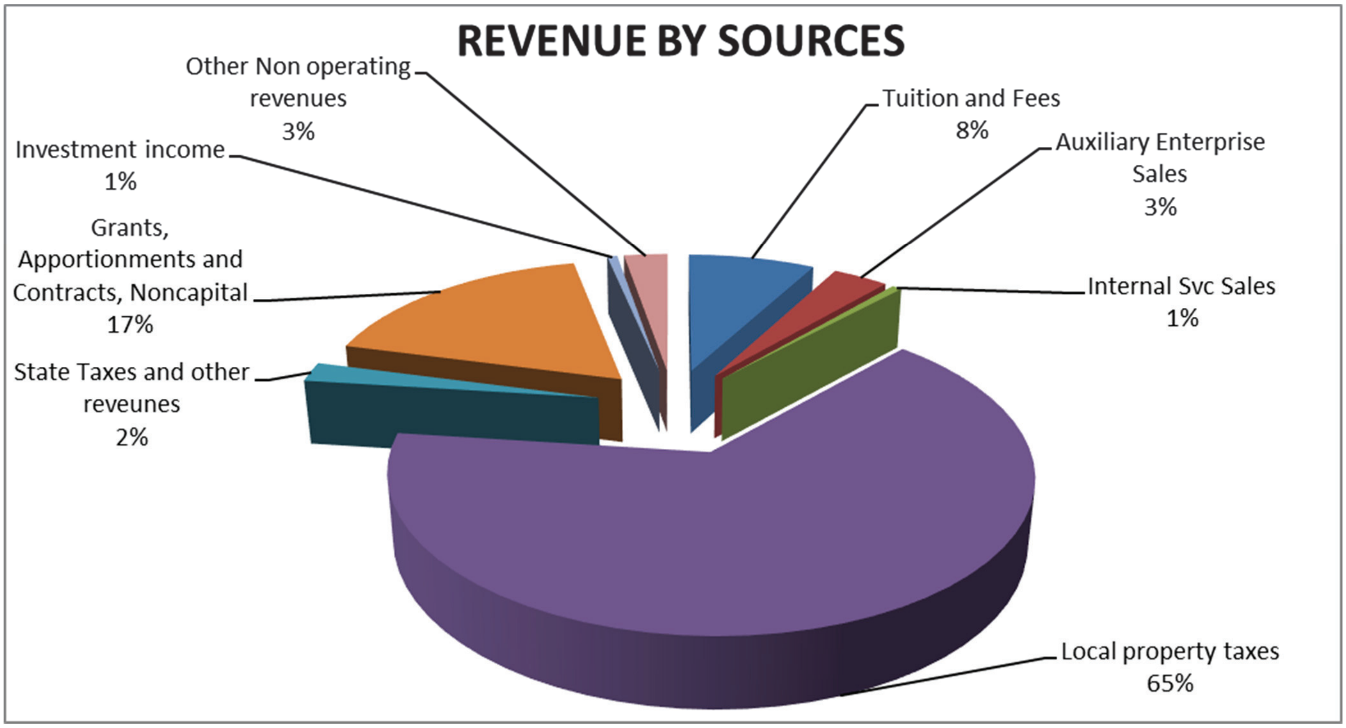
	(In Thousands) 2017	(In Thousands) 2016
OPERATING REVENUES		
Net Student Tuition and Fees	$ 22,462	$ 19,545
Auxiliary Enterprise Sales and Charges	9,874	9,728
Other Sales and Charges	1,758	1,692
TOTAL OPERATING REVENUES	34,094	30,965
OPERATING EXPENSES		
Salaries	110,023	113,133
Employee benefits	55,858	42,595
Supplies, Materials, and Other Operating Expenses and Services	35,850	30,846
Student Aid	18,960	20,630
Depreciation	27,104	26,468
TOTAL OPERATING EXPENSES	247,795	233,672
OPERATING LOSS	(213,701)	(202,707)
NONOPERATING REVENUES (EXPENSES)		
Local Property Taxes, Levied for General Purposes	135,523	125,380
Local Property Taxes, Levied for Special Purposes	50,928	47,018
State Taxes and Other Revenues	6,145	16,418
State Grants, Apportionments and Contracts, Noncapital	50,320	45,855
Investment Income	1,804	4,068
Interest Expense	(33,705)	(37,501)
Gain (Loss) on Disposal of Asset	(82)	(86)
Other Non-Operating Revenues (Expenses)	7,713	18,916
TOTAL NON-OPERATING REVENUES (EXPENSES)	218,646	220,068
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	4,945	17,361
State revenues, capital	3,461	2,844
Local revenues, capital	1,004	342
TOTAL OTHER REVENUES AND EXPENSES	4,465	3,186
CHANGE IN NET POSITION	9,410	20,547
NET POSITION, BEGINNING OF YEAR	42,178	(26,235)
RESTATEMENT	-	47,866
Cumulative effect of GASB 75 implementation	(93,008)	
NET POSITION, BEGINNING OF YEAR AS RESTATED	(50,830)	21,631
NET POSITION, END OF YEAR	$ (41,420)	$ 42,178

Explanatory information for the statement is as follows:

- Tuition and Fees include enrollment, health, non-resident tuition, and other student fees, less scholarship discount and allowance as defined by GASB statement No. 35.
- Auxiliary Enterprise Sales and Charges consist of bookstore and cafeteria sales and fitness center income.
- Internal Services include self-insurance for General Liability and Workers Compensation.
- State apportionments, non-capital includes state apportionment, apprenticeship, and child development apportionment.
- Local property taxes and other non-operating revenues consist primarily of secured and unsecured taxes which are payable to the District in December and April of each year. The County of San Mateo collects the taxes on behalf of the District. Other non-operating revenues are State Lottery revenue and miscellaneous local income.
- Federal, and state grants and contract services are exchange transactions for which the District files applications, complies with individual spending restrictions, files expenditure reports, and/or signs contracts.
- Net investment income includes interest from the San Mateo County Investment Pool managed by the County Treasurer, Certificates of Deposit, bond proceeds, and Local Agency Investment Fund (LAIF).
- State and Local Revenues - Capital includes State scheduled maintenance funding and General Obligation Bond issuance. These revenues relate mainly to construction activities.

Below is an illustration of District revenues by source:

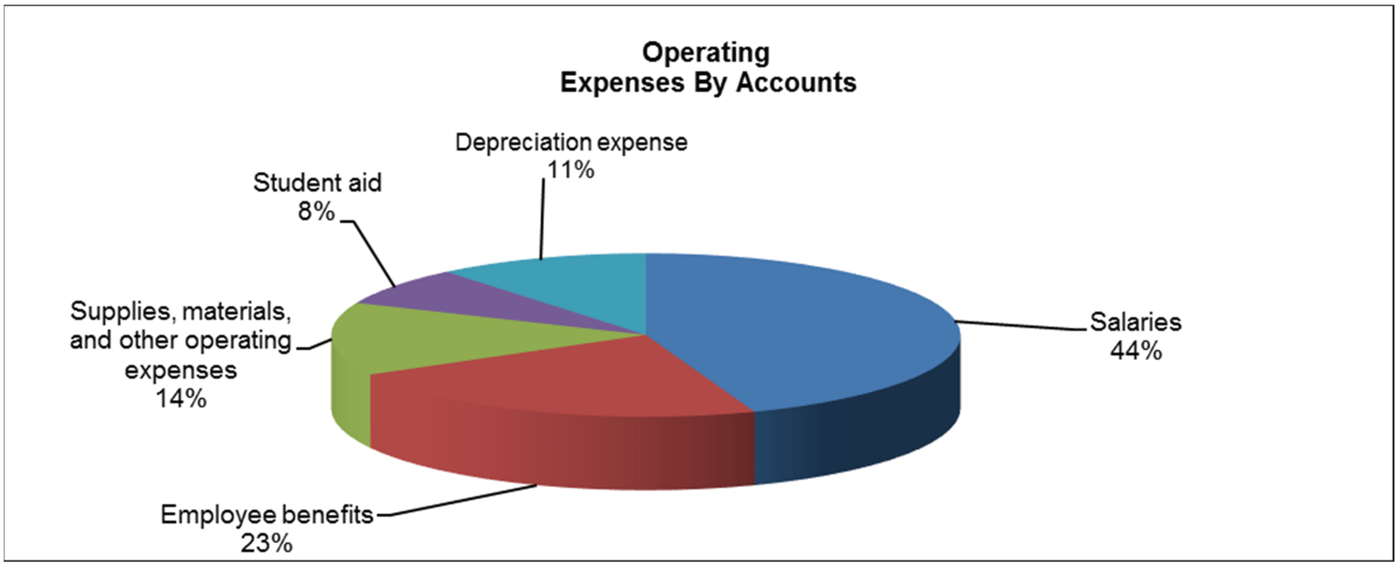
Graph 1. Revenue by Sources



Revenues and expenses changed mainly due to the following:

- Operating Revenue experienced an increase due to an increase in tuition and fees.
- Non-operating Revenue increased mainly due to an increase in local property taxes and a decrease in interest expense on capital related debt.

Graph 2. Operating Expenses By Accounts



Following are explanatory comments for the Statement of Operating Expenses by Account:

- Salaries and benefits expenses represent the largest percentage of the District's operating expenses.
- Supplies, materials, other operating expenses, services and utilities are the normal cost of operating expenses for exchange transactions.
- Depreciation of capital assets is computed and recorded using the straight-line method. The District maintains a capitalization threshold of $5,000 for equipment and $100,000 for building improvements. Useful lives of the assets are estimated as follows:
  - 5 to 10 years for equipment
  - 25 to 50 years for improvements
  - 25 to 50 years for buildings

Cash Flows

The Statement of Cash Flows shown below provides information about cash receipts and cash payments during the fiscal year. The statement also assists readers in understanding the District's ability to generate net cash flows, and its ability to meet obligations as they come due and the District's need for assistance via external financing. The District has adopted the direct method, and under this method, data for cash flow present operating activities by major categories of gross receipts and gross payments as well as the resulting net amount. Additional explanatory information for the statement is as follows:

- The main cash receipts from operating activities consist of tuition, student fees, and auxiliary enterprise sales. Cash outlays include payment of salaries, benefits, supplies and operating expenses.
- State apportionments, property taxes, and grants are the primary source of non-capital financing.
- For capital financing activities, the main sources are from special State Apportionments and General Obligation Bond.
- Cash from investing activities consists of Interest from County Investment Pool, Institutional Investment Pool, Certificates of Deposits, Bond and Local Agency Investment Fund (LAIF).

Table 3 – Statement of Cash Flows

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEARS ENDED JUNE 30, 2017 and 2016

	(In Thousands) 2017	(In Thousands) 2016
CASH FLOWS (USED IN) PROVIDED BY:		
Operating Activities	$ (196,050)	$ (187,270)
Noncapital financing activities	253,426	243,505
Capital financing activities	(60,842)	(48,089)
Investing activities	1,636	3,465
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,830)	11,611
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	369,762	358,151
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 367,932	$ 369,762

Economic Factors and the 2016-17 Budget

Being community supported, the District's revenues primarily consist of property tax revenues and student fees and are relatively predictable. The County Assessor's Office has stated that the property tax base went up 7.89% county-wide in 2016-17, which means our projected property tax revenues in 2017/18 are 7.89% higher. This puts the District on a very solid financial footing. The District continues to build multi-year financial plans and has planned balanced budgets through 2019/20.

Construction Planning 2017-18 and Beyond

Staff continues to revise and update the master schedule and the master budget of the Capital Improvement Program to coincide with the funding and programming requirements. In the past several years District has experienced a decline in State Capital Outlay funds for projects on all three campuses due to the fact that the State failed to approve an educational facilities bond since 2006. However, with the passage of Proposition 51 $9.1 Billion state wide education facilities bond in November 2016, District is forecasting to receive approximately $44M for much needed facilities upgrades. These funds will come over time, however, Governor Brown has been very reluctant to authorize the sale of these bonds, so the timing is still uncertain.

Compilations of site-specific activities, which are currently in design or construction phase, are listed below:

Cañada College:

- Parking Lot and Roadway Light Upgrade, Phase 2 (LED)
- Campus wide Americans with Disabilities Act (ADA) Mitigation
- Building 1N Kinesiology and Wellness Center
- Building 9 Envelope Repairs
- Building 13 Roofing Replacement and HVAC Upgrades
- Building 23N Math/Science/Technology
- Building 3 Central Utility Plant Upgrades
- Parking Lot 6 Expansion
- South Plaza

College of San Mateo:

- Parking Lot and Street Light Upgrade, Phase 2 (LED)
- Building 6 Aquatics Center Pool System Upgrade
- Building 3 Humanities and Arts Renovation
- Building 17 Student Life and Learning Communities Renovation
- Building 36 Fume Hood Controls Upgrades
- District Office IT Server Room Fire Suppression System

Skyline College:

- Building 1N Social Science and Creative Arts
- Building 12N Environmental Science
- Parking Lot L Expansion Building 5 Center of Transformative Teaching and Learning (CTTL)
- Building 14 Loma Chica Child Development Center
- Building 19 Pacific Heights Renovation Parcel B ADA Access

District Wide:

- Districtwide Utility Measurement & Verification
- Districtwide Classroom Security Hardware Upgrade, Phase 3, 4, and 5
- Districtwide UPS Device (MDF/IDF) Replacement
- Districtwide Symetra UPS Device (MPOE) Replacement
- Districtwide Telephone System Replacement
- Districtwide Network Switch Upgrade
- Districtwide Evacuation Map Upgrade
- Districtwide ADA Transition Plan Upgrade
- Districtwide Fire Alarm Panel Replacement

San Mateo County Community College District is fortunate in having legislative authority to use a variety of construction delivery methods to best suit each project's character and bring best value to the Colleges and our taxpayers, including design-build, multiple-prime contracting, as well as the traditional design-bid-build delivery method.

Staff and Faculty Housing

In response to regional housing costs that are among the highest in the country, the San Mateo County Community College District has undertaken initiatives to assist faculty and staff with high housing expenses. The District currently owns and operates 104 housing units at its College of San Mateo and Cañada College campuses, which are available to faculty and staff who meet the definition of first-time homebuyers. Employees are eligible to live in these units for up to seven years and pay rent that is well below market rate. Residents of the employee housing program are strongly encouraged to save the money from their reduced rent to apply toward a down payment to buy housing in the area. The District also has a second loan program for first-time homebuyers that will supplement the employees' down payment savings up to $150,000 and a closing cost grant for $1,000.

Locations

College Vista, located on the College of San Mateo campus, is a two and three-story complex with 44 units built on a 2-acre site with stunning views of the South Bay.

Cañada Vista, located at Cañada College, consists of two three-story residential buildings with 60 units on 3.3 acres overlooking mountain views.

Skyline Vista is in the planning and development stages and will located at Skyline College. This development will have 30 units and is tentatively scheduled to open in Spring 2020.

<u>Contacting the District's Financial Management Office</u>

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 funding received. Questions or concerns about this report or requests for additional financial information should be addressed to Kathy Blackwood, Executive Vice Chancellor, by phone at 650-358-6869 or by e-mail at blackwoodk@smccd.edu.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

		2017
ASSETS		
Current assets:		
Cash and cash equivalents	$	70,536,100
Accounts receivables, net		13,776,725
Inventory		3,650,425
Prepaid expenses		1,822,288
Total current assets		89,785,538
Noncurrent assets:		
Restricted cash and cash equivalents		297,395,785
Nondepreciable capital assets		49,964,940
Depreciable capital assets, net		565,365,851
Total noncurrent assets		912,726,576
Total assets		1,002,512,114
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow of resources - pensions		33,887,663
Deferred outflow of resources - debt refundings		14,212,239
Total deferred outflows of resources		48,099,902
Total assets and deferred outflows of resources	$	1,050,612,016
LIABILITIES		
Current liabilities:		
Accounts payable	$	23,060,879
Interest payable		8,879,029
Unearned revenue		16,403,358
Compensated absences payable - current portion		3,308,027
Long-term debt - current portion		43,931,430
Total current liabilities		95,582,723
Noncurrent liabilities:		
Compensated absences payable - noncurrent portion		1,735,406
Bonds and notes payable - noncurrent portion		815,485,225
Net OPEB liability		19,907,887
Net pension liability		147,106,000
Total liabilities		1,079,817,241
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions		12,215,000
NET POSITION		
Net investment in capital assets		181,220,531
Restricted for capital projects		13,723,026
Restricted for debt service		51,815,869
Restricted for educational programs		12,296,218
Restricted for other activities		22,032,696
Unrestricted		(322,508,565)
Total net position		(41,420,225)
Total liabilities, deferred inflows of resources and net position	$	1,050,612,016

See accompanying notes to the basic financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Year Ended June 30, 2017

	2017
Operating revenues:	
Tuition and fees	$ 31,406,255
Less: Fee waivers and allowance	(8,944,240)
Net tuition and fees	22,462,015
Auxiliary enterprise sales and charges:	
Bookstore	4,410,595
Cafeteria	385,068
Fitness center	5,078,171
Other sales and charges	1,758,382
Total operating revenues	34,094,231
Operating expenses:	
Salaries	110,023,343
Employee benefits	55,857,693
Supplies, materials, and other operating expenses	35,850,214
Student financial aid	18,960,228
Depreciation	27,103,655
Total operating expenses	247,795,133
Loss from operations	(213,700,902)
Non-operating revenues (expenses):	
Local property taxes,levied for general purposes	135,522,657
Local property taxes,levied for special purposes	50,927,754
State taxes and other revenues	6,145,166
Federal grants and contracts, noncaptial	21,113,583
State grants, apportionment,contracts, noncapital	27,032,584
Local grants and contracts, noncaptial	2,173,654
Investment income	1,803,542
Interest expense on capital asset-related debt	(33,704,897)
Loss on disposal of asset	(81,742)
Other non-operating (expense) revenues	7,714,319
Total non-operating revenues	218,646,620
Income before capital contributions	4,945,718
Capital contributions:	
State revenues, capital	3,460,920
Local revenues, capital	1,003,735
Change in net position	9,410,373
Net position, July 1, 2016	42,177,774
Cumulative effect of GASB 75 implementation	(93,008,372)
Net position, beginning of year, as restated	(50,830,598)
Net position, end of year	$ (41,420,225)

See accompanying notes to the basic financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	2017
Cash flows from operating activities:	
Tuition and fees	$ 22,096,971
Payments to suppliers	(37,335,766)
Payments to / on behalf of employees	(171,065,228)
Payments to students	(19,020,657)
Auxiliary sales and charges	9,274,968
Net cash used in operating activities	(196,049,712)
Cash flows from noncapital financing activities:	
Property taxes, levied for general purposes	135,522,657
Property taxes, levied for special purposes	50,927,754
State taxes and other apportionments	6,578,790
Federal grants and contracts	21,531,405
State grants, apportionment,contracts, noncapital	29,562,277
Local grants and contracts	2,173,654
Proceeds from issuance of TRANs	25,000,000
Repayment of TRANs	(25,000,000)
Other receipts and disbursements	7,129,370
Net cash provided by noncapital financing activities	253,425,907
Cash flows from capital and related financing activities:	
State apportionment for capital purposes	3,460,920
Purchase of capital assets	(14,424,723)
Principal paid on capital debt	(31,894,840)
Interest paid on capital debt	(18,987,131)
Local property taxes and other revenues for capital purposes	1,003,735
Net cash used in capital and related financing activities	(60,842,039)
Cash flows from investing activities:	
Interest received from investments	1,635,551
Net cash provided by investing activities	1,635,551
Net change in cash and cash equivalents	(1,830,293)
Cash and cash equivalents, beginning of year	369,762,178
Cash and cash equivalents, end of year	$ 367,931,885

(Continued)

	2017
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	$ (213,700,902)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	27,103,655
Changes in assets and liabilities:	
Receivables, net	(2,722,292)
Inventory and prepaid assets	(974,292)
Deferred outflows - pensions	(20,677,785)
Accounts payable	4,333,685
Unearned revenue	(60,429)
Compensated absences	634,365
Net OPEB liability	(13,360,717)
Net pension liability	23,195,000
Deferred inflows - pensions	180,000
Total adjustments	17,651,190
Net cash used in operating activities	$ (196,049,712)
Cash and cash equivalents consist of the following:	
Cash and cash equivalents	$ 70,536,100
Restricted cash and cash equivalents	297,395,785
Total cash and cash equivalents	$ 367,931,885
Non-cash transactions:	
Amortization of premiums	$ 2,590,043
Accretion of interest	$ 15,474,654
Amortization of deferred loss on refunding	$ 931,319
Additions to capital assets - change in accounts payable	$ 3,160,963

		Agency Funds	
	OPEB Trust Fund	Associated Students Trust	Student Representation Fee
ASSETS			
Cash and cash equivalents	$ -	$ 1,696,497	$ 167,420
Investments:			
Mutual funds – fixed income	48,077,511	-	-
Mutual funds – equity	42,467,543	-	-
Mutual funds – real estate	6,752,278	-	-
Accounts receivable	-	137,310	-
Fixed assets	-	420	-
Total assets	$ 97,297,332	$ 1,834,227	$ 167,420
LIABILITIES AND NET POSITION			
Accounts payable	$ 235,713	$ 905,100	$ -
Due to student groups and other	-	929,127	167,420
Total liabilities	235,713	$ 1,834,227	$ 167,420
Net Position restricted for OPEB	97,061,619		
Total liabilities and net position	$ 97,297,332		

See accompanying notes to the basic financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2017

	OPEB Trust Fund
Additions	
Employer contributions	$ 15,230,215
Net investment income:	
Dividends and other income	2,789,489
Realized and unrealized losses, net	6,253,815
Investment fees	(337,684)
Total additions	23,935,835
Deductions	
Retiree benefits	7,230,215
Net increase in net position	16,705,620
Net Position restricted for OPEB:	
Net position, beginning of year	80,355,999
Net position, end of year	$ 97,061,619

See accompanying notes to the basic financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
EDUCATIONAL HOUSING CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2017

		2017
ASSETS		
Cash and cash equivalents	$	147,248
Due from District		64,363
Total assets	$	211,611
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$	35,379
Unearned rent		17,405
Rent security deposits		133,449
Total liabilities		186,233
Unrestricted net assets		25,378
Total liabilities and net assets	$	211,611

See accompanying notes to the basic financial statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	2017
Revenues:	
Rental income	$ 1,539,681
Other local income	10,525
Total revenues	1,550,206
Expenses:	
Operating expenses	387,894
Transfer to District	1,158,124
Total expenses	1,546,018
Change in net assets	4,188
Net assets, beginning of year	21,190
Net assets, end of year	$ 25,378

See accompanying notes to the basic financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
EDUCATIONAL HOUSING CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	2017
Cash flow from operating activities:	
Change in net assets	$ 4,188
Changes in assets and liabilities	
Accounts receivable	(57,363)
Accounts payable	19,917
Unearned rent	3,840
Rent security deposits	(4,631)
Net cash flows used in operating activities	(34,049)
Net change in cash and cash equivalents	(34,049)
Cash and cash equivalents, beginning of year	181,297
Cash and cash equivalents, end of year	$ 147,248

See accompanying notes to the basic financial statements.

NOTE 1 - ORGANIZATION

San Mateo County Community College District (the "District") was established in 1922 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering post secondary educational services to residents of San Mateo County and surrounding areas. The District operates under a locally elected five-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates three college campuses located in the cities of San Mateo, San Bruno, and Redwood City, California. While the District is a political subdivision of the State of California, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Codification Section (Cod. Sec.) 2100.101. The District is classified as a state instrumentality under Internal Revenue Code Section 115.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: The decision to include potential component units in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America and GASB Cod. Sec. 2100. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The District identified the following potential component units:

- San Mateo County Community College District Financing Corporation
- San Mateo County Community College Educational Housing Corporation
- San Mateo County Community College Foundation

The *San Mateo County Community College District Financing Corporation* (the Corporation) is a legally separate organization 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 Board of Trustees of the Corporation is the same as the Board of Trustees of the District. The financial activity has been “blended” or consolidated within the financial statements as of the District as if the activity was the District’s. This activity is accounted for in the District’s COP Payment Fund and COP Construction Fund. Individually-prepared financial statements are not prepared for the Corporation.

The *San Mateo County Community Colleges Educational Housing Corporation* (the Housing Corp.) is a non- profit organization under IRS Code Section 501(c)(3). The Housing Corp. meets the criteria of the governing authority's ability to significantly influence operations and accountability for fiscal matters and the criteria for inclusion in the District's reporting entity. Its purpose is to operate staff and faculty housing. The financial activity of the Housing Corp. is reported as a separate discretely presented component unit. Individually-prepared financial statements are not prepared for the Housing Corp.

The *San Mateo County Community Colleges Foundation* (the Foundation) is a non-profit organization under IRS Code Section 501(c)(3). The District has determined that the Foundation does not meet the criteria of the governing authority's ability to significantly influence operations and accountability for fiscal matters and the criteria for inclusion in the District's report entity. It is dedicated to providing assistance to the students, teachers, and programs of the Colleges. The financial activity of the Foundation is not included in this report. Individually-prepared financial statements can be obtained from the Foundation at www.smcccfoundation.org.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting: For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB. Under this model, the District's financial statements provide a comprehensive entity-wide perspective at the District's financial position and activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when the obligation has been incurred. All significant intra-agency transactions have been eliminated. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's *Budget and Accounting Manual*.

Fiduciary funds for which the District acts only as an agent or trust are not included in the business-type activities of the District. These funds are reported in the Statement of Fiduciary Net Position and Statement of Change in Fiduciary Net Position at the fund financial statement level.

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.

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 a five-year average ratio over actual revenues. The allowance was estimated at $2,537,065 as of June 30, 2017.

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

Inventory: Inventory consists primarily of bookstore merchandise and supplies held for resale at each of the colleges. Inventories are stated at lower of cost or market, utilizing the first in, first out method. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation: Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $5,000 for equipment and $100,000 for land, buildings and improvements. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 25 to 50 years; improvements, 25 to 50 years; equipment, 5 to 10 years.

The District capitalizes interest paid on obligations related to the acquisition, construction or rehabilitation of District capital assets. Interest cost and interest capitalized totaled $33,704,897 and $1,649,305, respectively, for the year ended June 30, 2017.

Unearned Revenue: Revenue from Federal, State and local special projects and programs is recognized when qualified expenditures have been incurred. Tuition, fees and other support received but not earned are recorded as unearned revenue until earned.

Postemployment Benefits Other Than Pensions (OPEB): For purpose of measuring the net OPEB liability, information about the fiduciary net position of the Other Postemployment Benefit Plan (the "Plan") and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and interest-earning investment contracts that are reported at cost. The Plan is included in the District's financial report and separately presented as a fiduciary fund. Separate financial statements are also prepared for the Plan and may be obtained by contacting San Mateo County Community College District.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding reported, which is in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. The District has recognized a deferred outflow of resources related to recognition of the pension liability reported in the Statement of Net Position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statement of Net Position.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers’ Retirement Plan (STRP) program of CalSTRS and Public Employers Retirement Fund B (PERF B) a program of CalPERS, and additions to/deductions from STRP’s and PERF B’s fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Certain investments are reported at fair value. The following is a summary of pension amounts in aggregate.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	STRP	PERF B	Total
Deferred outflows of resources	$ 11,898,598	$ 21,989,065	$ 33,887,663
Deferred inflows of resources	$ 10,022,000	$ 2,193,000	$ 12,215,000
Net pension liability	$ 74,125,000	$ 72,981,000	$ 147,106,000
Pension expense	$ 9,427,854	$ 9,652,004	$ 19,079,858

Compensated Absences: Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The 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.

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 classified 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.

Net Position: The District's net position is classified as follows:

Net investment in capital assets: This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets and deferred outflows of resources. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position: Restricted expendable net position include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. Nonexpendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. At June 30, 2017 there is no balance of nonexpendable restricted net position.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, State apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources, and then towards unrestricted resources.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On-Behalf Payments: GASB Statement 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' and Public Employees' Retirement System on behalf of all Community Colleges in California. The new government-wide conversion entries relating to the pension reporting requirements of GASB 68 rely on Local Educational Agencies (LEAs) having recognized the state's on-behalf pension contribution in their funds. Prior to the issuance of GASB 68, the district recorded this entry at the consolidation entry level for GASB 35 business-type activity reporting.

Classification of Revenues and Expenses: The District has classified its revenues as either operating or nonoperating revenues. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Cod. Sec. Co5.101 including State appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

Operating revenues and expenses: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises. All expenses are considered operating expenses except for interest expense on capital related debt.

Nonoperating revenues and expenses: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Pell grants, most Federal, State and local grants and contracts and Federal appropriations, gifts and contributions, and other revenue sources described in GASB Cod. Sec. Co5.101, such as State appropriations and investment income. Interest expense on capital related debt is a non-operating expense.

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 calculations 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 Mateo bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed General Obligation Bonds in 2001, 2005 and 2014 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bonds, property taxes are assessed on the property within the District specifically for the repayment of the debts incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Board of Governors Grants (BOGG) and Fee Waivers: Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenditures, and Change in Net Position. 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. To the extent that fee waivers and payments have been used to satisfy tuition and fee charges, the District has recorded an allowance.

Estimates: The preparation of the financial statement 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.

Component Unit - Educational Housing Corporation Financial Statement Presentation: The Educational Housing Corporation (the "Housing Corp.") presents its financial statements in accordance with the FASB Accounting Standards Codification under these reporting requirements, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the codification, the Housing Corp. does not use fund accounting.

The assets, liabilities, and net assets of the Housing Corp. are reported as unrestricted funds, which represent the portion of resources that are available for general purpose of the Housing Corp.'s operations.

Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting. Revenues are reported as increases in the unrestricted net assets classification unless use of the related assets is limited by donor-imposed restrictions.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

The Corporation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and related California Franchise Tax Codes.

New Accounting Pronouncements: In June 2015, the GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. Based on the implementation of Statement No. 75, the District's July 1, 2016 net position was restated decreasing net position by $93,008,372 because of the recognition of the net OPEB liability.

(Continued)

NOTE 3 - CASH AND CASH EQUIVALENTS

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; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Summary of Cash and Cash Equivalents: Cash and cash equivalents of the District as of June 30, 2017 consisted of the following:

	2017
Cash in County Treasury	$ 323,262,336
Cash with fiscal agent	27,177,886
Cash on hand and in banks	650,736
Cash in revolving	70,000
Certificates of deposit	16,770,927
Total cash and cash equivalents	$ 367,931,885

Cash and cash equivalents of the Fiduciary Funds as of June 30, consisted of the following:

	2017
Cash on hand and in banks	$ 420,760
Cash in County Treasury	1,443,157
Total cash and cash equivalents	$ 1,863,917

Cash and cash equivalents of the Educational Housing Corporation as of June 30, consisted of the following:

	2017
Cash on hand and in banks	$ 147,248
Total cash and cash equivalents	$ 147,248

Cash in County Treasury: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The District is considered to be an involuntary participant in an external investment pool. The District's investment in the pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value by the County Treasurer for the entire 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.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial risk classifications is required.

(Continued)

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The District's deposits in the fund are considered to be highly liquid. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The County Treasurer has indicated that there are no derivatives in the pool as of June 30, 2017.

Cash with Fiscal Agent: Cash with Fiscal Agent represents bond funds to be used in the future. At June 30, 2017, the funds are held with a bank in a money market account and recorded at fair value.

Custodial Credit Risk - Deposits and Certificate of Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation ("FDIC") and are collateralized by the respective financial institution. At June 30, 2017, the carrying amount of the District's cash in banks was $1,218,744 and the bank balance was $1,226,299. The bank balance amount insured was $647,248. At June 30, 2017, certificates of deposit totaling $16,770,927 and were fully insured by the FDIC.

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by the financial institutions that is not insured is collateralized.

NOTE 4 - INVESTMENTS - OPEB TRUST

The District's OPEB (the "Trust") Trust fund, a fiduciary fund, has adopted an internally developed investment policy that is governed by the standards established in the California Constitution. In addition, the Trust has written investment policies regarding the type of investments that may be made specifically for the Trust and the amount, which may be invested in any one financial institution or amounts that may be invested in long-term instruments. Management believes the Trust has complied with the provisions of statutes pertaining to the types of investments held, institutions in which deposits were made, and security requirements.

The fair values of the Trust's individual investments as of June 30, consisted of the following:

	2017
Mutual funds – fixed income	$ 48,077,511
Mutual funds – equity	42,467,543
Mutual funds – real estate	6,752,278
Total investments	$ 97,297,332

(Continued)

NOTE 4 - INVESTMENTS - OPEB TRUST (Continued)

During the fiscal year ended as of June 30, the Trust's investments (including gains and losses on investments bought and sold as well as held during the year) consisted of the following:

	2017
Dividend and other	$ 2,789,489
Realized gains (losses)	1,121,049
Unrealized gains (losses)	5,132,766
Investment fees	(337,684)
Total investment income, net	$ 8,705,620

Custodial Credit Risk: The California Government Code requires California banks and savings and loan associations to secure the Trust's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the Trust. All cash held by financial institutions is entirely insured or collateralized.

Credit Risk: The Trust's investment policy requires all fixed income investments to be of investment grade quality or higher at purchase; that is, at the time of purchases, rated no lower than "BBB" by Standard and Poor's. The Trust Board, at their discretion, may impose a higher standard on an individual investment manager basis as circumstances or investment objectives dictate. At June 30, 2017, the Trust investments consisted of open-end mutual funds, therefore there are no credit ratings to disclose.

Interest Rate Risk: The Trust's investments consisted of open and closed-end mutual funds, therefore, there are no significant interest rate risk related to the investments held, as there are no maturities related to the mutual funds held.

Fair Value of Financial Instruments: The following methods and assumptions were used by the Trust to estimate the fair value of its financial instruments at June 30, 2017.

Fair Value Hierarchy: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(Continued)

NOTE 4 - INVESTMENTS - OPEB TRUST (Continued)

Assets Recorded at Fair Value: The following table presents information about the District's assets measured at fair value on a recurring basis:

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
OPEB Investments:				
Mutual funds - fixed income	$ 48,077,511	$ 48,077,511	$ -	$ -
Mutual funds - equity	42,467,543	42,467,543	-	-
Mutual funds – real estate	6,752,278	6,752,278	-	-
Total	$ 97,297,332	$ 97,297,332	$ -	$ -

Mutual funds were valued at closing prices from securities exchanges and are classified as Level 1 investments.

During the year ended June 30, 2017, there were no significant transfers in or out of Level 1.

There were no assets or liabilities measured at fair value on a non-recurring basis at June 30, 2017.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivables for the District as of June 30, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. The accounts receivable are as follows:

	2017
Federal Government	
Categorical aid	$ 1,244,841
State Government	
Categorical aid	1,136,023
Lottery	1,651,277
Local sources	
Interest	900,570
Financial aid receivables	1,721,105
Student receivables	3,223,795
Other local sources	6,436,179
Subtotal	16,313,790
Less allowance for bad debt	(2,537,065)
Total accounts receivable, net	$ 13,776,725

(Continued)

NOTE 5 - ACCOUNTS RECEIVABLE (Continued)

As of June 30, 2017, receivables from other local sources includes $1,157,539, for loans made to District employees to purchase houses. All full time employees who purchase a home and contribute at least 20 percent of the purchase price are eligible to receive loans of up to $100,000 per employee. Repayment terms and interest rates are: no payments due in years 1 through 5, payments of principal and interest in years 6-10, with final payment of any remaining balance in year 10. Selling the property, withdrawing cash from the equity, or leaving the District's employment accelerates the due date of the loan. Interest is charged at 4 percent per year. As of June 30, 2017, all of the funds have been loaned out. No loans will be granted to additional employees until existing loans are paid back or the Board authorizes additional amounts to be loaned out.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District consists of the following at June 30, 2017:

	Balance July 1, 2016	Additions and Transfers	Deductions and Transfers	Balance June 30, 2017
Non-depreciable:				
Land	$ 20,628,292	$ -	$ -	$ 20,628,292
Construction in progress	16,910,580	19,118,088	(6,692,020)	29,336,648
Depreciable:				
Land improvements	128,855,451	2,420,205	-	131,275,656
Buildings and improvements	658,135,141	1,860,518	-	659,995,659
Furniture, equipment and vehicles	31,069,803	2,269,635	(4,054,216)	29,285,222
Total	855,599,267	25,668,446	(10,746,236)	870,521,477
Less accumulated depreciation:				
Land improvements	30,720,993	6,119,844	-	36,840,837
Buildings and improvements	178,543,898	19,151,534	-	197,695,432
Furniture, equipment and vehicles	22,794,614	1,832,277	(3,972,474)	20,654,417
Total	232,059,505	27,103,655	(3,972,474)	255,190,686
Capital assets, net	$623,539,762	$ (1,435,209)	$ (6,773,762)	$615,330,791

(Continued)

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable for the District as of June 30, consisted of the following:

	2017
Vendor and other	$ 7,623,352
Payroll related liabilities	7,574,554
Construction	5,796,629
Workers' compensation	2,066,000
Federal	344
Total	$ 23,060,879

The accounts payable of the Fiduciary Fund consists primarily of funds held for student clubs.

The accounts payable of the Educational Housing Corporation consists of local vendor payables.

NOTE 8 - UNEARNED REVENUE

Unearned revenue as of June 30, consisted of the following:

	2017
State categorical aid	$ 6,596,259
Enrollment fees	2,468,948
Other local	7,338,151
Total	$ 16,403,358

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES

On July 14, 2016, the District issued $25,000,000 Tax and Revenue Anticipation Notes bearing interest at .06 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on April 30, 2017. By April 30, 2017, the District had fully repaid 100 percent of principal and interest. The District was not required to make any additional payments on the notes.

TRANS activity for the District consists of the following at June 30, 2017:

	Outstanding July 1, 2016	Additions	Deletions	Outstanding June 30, 2017
2017 2.00% TRANS	$ -	$ 25,000,000	$ (25,000,000)	$ -
Total	$ -	$ 25,000,000	$ (25,000,000)	$ -

(Continued)

NOTE 10 - LONG TERM LIABILITIES

The long-term liabilities activity for the year ended June 30, 2017, is as follows:

	Restated July 1, 2016	Additions	Payments and Reductions	June 30, 2017	Current Portion
General obligation bonds	$ 644,384,027	$ -	$ 32,571,029	$ 611,812,998	$ 35,388,929
Unamortized bond premiums	49,070,723	-	2,590,043	46,480,680	5,936,071
Accreted interest	185,648,323	20,663,625	5,188,971	201,122,977	2,606,430
Net pension liability	123,911,000	23,195,000	-	147,106,000	-
Net OPEB liability	33,268,604	-	13,360,717	19,907,887	-
Compensated absences	4,409,068	4,000,206	3,365,841	5,043,433	3,308,027
Total	$1,040,691,745	$ 47,858,831	$ 57,076,601	$1,031,473,975	$ 47,239,457

On June 4, 2002, the District issued $96,857,613 of General Obligation Bonds Series 2001A. The Bonds were issued to finance the acquisition, construction and modernization of certain District property and facilities. The Current Interest Bonds of $53,335,000 were refunded during the fiscal year ended June 30, 2012. Capital Appreciation Bonds of $18,045,613 mature September 1, 2016 through September 1, 2026 with interest accreting at an average 5.55% compounded semiannually each year and due upon maturity.

Unamortized premiums and accreted interest on the capital appreciation bonds were $207,962 and $19,437,193 at June 30, 2017, respectively.

The following is a schedule of future payments as of June 30, 2017 for the Series 2001A Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Total
2018	$ 1,652,600	$ 2,007,400	$ 3,660,000
2019	1,681,431	2,298,569	3,980,000
2020	1,705,547	2,609,453	4,315,000
2021	1,727,950	2,952,051	4,680,001
2022	1,750,545	3,304,454	5,054,999
2023-2027	7,911,500	19,683,500	27,595,000
Totals	$ 16,429,573	$ 32,855,427	$ 49,285,000

On February 9, 2005, the District issued $69,995,132 of General Obligation Bonds Series 2001B. The Bonds were issued to finance the acquisition, construction and modernization of certain District property and facilities. The Current Interest Bonds of $22,375,000 were refunded during the fiscal years ended June 30, 2012 and 2015. Capital Appreciation Bonds of $23,095,132 mature September 1, 2021 through September 1, 2028 with interest accreting at an average 4.78% compounded semiannually each year and due upon maturity.

(Continued)

NOTE 10 - LONG TERM LIABILITIES (Continued)

Unamortized premiums and accreted interest on the capital appreciation bonds were $467,700 and $18,527,724 at June 30, 2017, respectively.

The following is a schedule of future payments as of June 30, 2017 for the Series 2001B Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Total
2018	$ -	$ -	$ -
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	2,127,124	2,367,876	4,495,000
2023-2027	10,574,196	16,015,804	26,590,000
2028-2029	10,393,812	21,551,188	31,945,000
Totals	$ 23,095,132	$ 39,934,868	$ 63,030,000

On April 11, 2006, the District issued $40,124,660 of General Obligation Bonds Series 2001C. The Bonds were issued to finance the acquisition, construction and modernization of certain District property and facilities. The Current Interest Bonds of $7,500,000 were partially refunded during the fiscal year ended June 30, 2015 with the remaining bonds maturing during the year ended June 30, 2016. Capital Appreciation Bonds of $25,469,660 mature September 1, 2016 through March 30, 2031 with interest accreting at an average 4.90% compounded semiannually each year and due upon maturity.

Unamortized premiums and accreted interest on the capital appreciation bonds were $152,817 and $17,584,580 at June 30, 2017, respectively.

The following is a schedule of future payments as of June 30, 2017 for the Series 2001C Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Total
2018	$ 852,840	$ 587,160	$ 1,440,000
2019	857,978	672,022	1,530,000
2020	868,823	761,177	1,630,000
2021	872,212	852,788	1,725,000
2022	874,686	950,314	1,825,000
2023-2027	4,426,854	6,443,146	10,870,000
2028-2031	15,865,900	35,739,100	51,605,000
Totals	$ 24,619,293	$ 46,005,707	$ 70,625,000

On April 11, 2006, the District issued $135,429,395 of General Obligation Bonds Series 2005A. The Bonds were issued to finance the acquisition, construction and modernization of certain District property and facilities. The Current Interest Bonds of $61,795,000 matured during the fiscal year ended June 30, 2015. Capital Appreciation Bonds of $73,634,395 mature September 1, 2015 through September 1, 2030 with interest accreting at an average 4.86% compounded semiannually each year and due upon maturity.

NOTE 10 - LONG TERM LIABILITIES (Continued)

Unamortized premiums and accreted interest on the capital appreciation bonds were $758,703 and $45,870,272 at June 30, 2017, respectively.

The following is a schedule of future payments as of June 30, 2017 for the Series 2005A Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Total
2018	$ 4,853,489	$ 3,341,511	$ 8,195,000
2019	4,794,584	3,755,416	8,550,000
2020	4,757,204	4,167,796	8,925,000
2021	4,707,415	4,602,585	9,310,000
2022	4,658,602	5,061,398	9,720,000
2023-2027	22,639,195	32,875,805	55,515,000
2028-2031	17,353,317	36,806,683	54,160,000
Totals	$ 63,763,806	$ 90,611,194	$ 154,375,000

On December 12, 2006, the District issued $332,570,194 of General Obligation Bonds Series 2005B. The Bonds were issued to finance the acquisition, construction and modernization of certain District property and facilities. The Current Interest Bonds of $41,155,000 were partially refunded during the fiscal years ended June 30, 2012 and 2015. The remaining Current Interest Bonds of $6,865,000 matured during the fiscal year ending June 30, 2017. Capital Appreciation Bonds of $163,005,194 mature September 1, 2020 through September 1, 2038 with interest accreting at an average 4.58% compounded semiannually each year and due upon maturity.

Unamortized premiums and accreted interest on the capital appreciation bonds were $5,541,294 and $99,703,208 at June 30, 2017, respectively.

The following is a schedule of future payments as of June 30, 2017 for the Series 2005B General Obligation Bonds:

Years Ending June 30,	Principal	Interest	Total
2018	$ -	$ -	$ -
2019	-	-	-
2020	-	-	-
2021	4,689,965	4,030,035	8,720,000
2022	4,957,819	4,687,181	9,645,000
2023-2027	28,754,435	35,710,565	64,465,000
2028-2032	38,756,367	71,118,633	109,875,000
2033-2037	60,025,748	151,234,252	211,260,000
2038-2039	25,820,860	80,279,140	106,100,000
Totals	$ 163,005,194	$ 347,059,806	$ 510,065,000

NOTE 10 - LONG TERM LIABILITIES (Continued)

On April 26, 2012, the District issued $107,595,000 of 2012 General Obligation Refunding Bonds. Proceeds were used to refund portions of the outstanding Series 2001A General Obligation Bonds, Series 2001B General Obligation Bonds, and Series 2005B General Obligation Bonds. The 2012 Refunding Bonds are general obligations of the District payable solely from ad valorem property taxes. The 2012 Refunding Bonds mature through September 1, 2026 and bear interest at rates ranging from 2.00% to 5.00% with interest due annually on September 1. For financial reporting purposes, the refunded debt has been considered defeased and therefore removed from the District's financial statements. On June 30, 2017, $97,925,000 of bonds outstanding are considered defeased.

Unamortized premiums on the 2012 Refunding Bonds were $12,159,071 as of June 30, 2017.

The following is a schedule of the future payments as of June 30, 2017 for the 2012 Refunding Bonds:

Year Ending June 30,	Principal	Interest	Total
2018	$ 13,110,000	$ 3,717,525	$ 16,827,525
2019	14,490,000	3,193,125	17,683,125
2020	16,495,000	2,613,525	19,108,525
2021	9,645,000	1,953,725	11,598,725
2022	5,945,000	1,517,925	7,462,925
2023-2027	27,335,000	3,671,250	31,006,250
Totals	$ 87,020,000	$ 16,667,075	$ 103,687,075

On May 27, 2015, the District issued $127,000,000 of General Obligation Bonds Series 2014A. The Bonds were issued to finance the acquisition, construction and modernization of certain District property and facilities. The General Obligation Bonds Series 2014A mature September 1, 2016 through September 1, 2045 and bear interest at rates ranging from 3.00% to 5.00% with interest due semiannually on September 1 and March 1.

Unamortized premiums on the 2015 General Obligation Bonds Series 2014A were $11,304,815 as of June 30, 2017.

The following is a schedule of future payments as of June 30, 2017 for the Series 2005B General Obligation Bonds:

Year Ending June 30,	Principal	Interest	Total
2018	$ 14,135,000	$ 4,620,825	$ 18,755,825
2019	10,385,000	4,078,500	14,463,500
2020	-	3,977,156	3,977,156
2021	-	4,135,438	4,135,438
2022	-	4,135,438	4,135,438
2023-2027	2,725,000	20,792,688	23,517,688
2028-2032	7,700,000	20,531,906	28,231,906
2033-2037	15,985,000	18,039,356	34,024,356
2038-2042	28,220,000	12,683,131	40,903,131
2043-2046	34,970,000	3,695,750	38,665,750
Totals	$ 114,120,000	$ 96,690,188	$ 210,810,188

(Continued)

NOTE 10 - LONG TERM LIABILITIES (Continued)

On September 4, 2014, the District issued $121,805,000 of 2014 General Obligation Refunding Bonds. Proceeds were used to refund portions of the outstanding Series 2001B General Obligation Bonds, Series 2001C General Obligation Bonds, and Series 2005B General Obligation Bonds. The 2014 Refunding Bonds are general obligations of the District payable solely from ad valorem property taxes. The 2014 Refunding Bonds mature September 1, 2015 through September 1, 2038 and bear interest at rates ranging from 2.00% to 5.00% with interest due annually on September 1. For financial reporting purposes, the refunded debt has been considered defeased and therefore removed from the District's financial statements.

Unamortized premiums on the 2014 Refunding Bonds were $15,888,318 as of June 30, 2017.

The following is a schedule of the future payments as of June 30, 2017 for the 2012 Refunding Bonds:

Year Ending June 30,	Principal	Interest	Total
2018	$ 785,000	$ 4,975,900	$ 5,760,900
2019	1,050,000	4,960,200	6,010,200
2020	480,000	5,270,500	5,750,500
2021	495,000	5,256,100	5,751,100
2022	515,000	5,236,300	5,751,300
2023-2027	11,750,000	26,625,350	38,375,350
2028-2032	46,555,000	22,864,000	69,419,000
2033-2037	40,720,000	10,948,250	51,668,250
2038-2039	17,410,000	1,374,975	18,784,975
Totals	$ 119,760,000	$ 87,511,575	$ 207,271,575

NOTE 11 - RISK MANAGEMENT

Insurance Coverage: 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. During the year ending June 30, 2017, the District contracted with MacCorkle Inc., an insurance broker to manage the District's insurance claims. The District is self-insured for the first $150,000. Settled claims have not exceeded this commercial coverage.

Workers' Compensation: For the fiscal year, the District contracted with Andreini and Company for placement of excess workers' compensation insurance program. The District is self-insured for the first $350,000.

Employee Medical Benefits: The District has contracted with the CalPERS to provide employee medical and surgical benefits. CalPERS is a shared risk pool comprised of nearly 2,500 employers and covers five regions (Bay Area, Other Northern California, Southern California, Other Southern California, and Out of State). 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 claims flow. The CalPERS Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool. CalPERS requires the District to have a post retirement medical benefit plan for CalPERS members.

(Continued)

NOTE 11 - RISK MANAGEMENT (Continued)

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate costs of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Claim Liabilities: The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2014 to June 30, 2017:

	Workers' Compensation
Liability Balance, July 1, 2015	$ 2,218,000
Claims and changes in estimates	998,165
Claims payments	(1,220,165)
Liability Balance, June 30, 2016	1,996,000
Claims and changes in estimates	1,753,424
Claims payments	(1,683,424)
Liability Balance, June 30, 2017	$ 2,066,000
Assets available to pay claims at June 30, 2017	$ 7,635,134

NOTE 12 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

General Information about the State Teachers' Retirement Plan

Plan Description: Teaching-certified employees of the District are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at http://www.calstrs.com/comprehensive-annual-financial-report.

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

NOTE 12 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

<u>Contributions</u>: 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.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members – Under CalSTRS 2% at 60, the member contribution rate was 10.25 percent of applicable member earnings for fiscal year 2016-17. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 9.205 percent of applicable member earnings for fiscal year 2016-17.

In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

(Continued)

NOTE 12 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

Employers – 12.58 percent of applicable member earnings for fiscal year 2016-17.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The legislation also gives the board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

The CalSTRS employer contribution rate increases effective for fiscal year 2015-16 through fiscal year 2045-46 are summarized in the table below:

Effective Date	Prior Rate	Increase	Total
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The District contributed $6,005,598 to the plan for the fiscal year ended June 30, 2017.

State – 8.828 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year for fiscal year 2016-17.

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046-2047. The CalSTRS state contribution rates effective for fiscal year 2016-17 and beyond are summarized in the table below.

(Continued)

NOTE 12 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

As shown in the subsequent table, the state rate will increase to 4.811 percent on July 1, 2017, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

Effective Date	Base Rate	AB 1469 Increase For 1990 Benefit Structure	SBMA Funding (1)	Total State Appropriation to DB Program
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017	2.017%	4.811%(2)	2.50%	9.328%
July 01, 2018 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 01, 2046 and thereafter	2.017%	(3)	2.50%	4.571%(3)

(1)This rate does not include the $72 million reduction in accordance with Education Code Section 22954.
(2)During its April 2017 meeting, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2017.
(3)The CalSTRS board has limited authority to adjust state contribution rates from July 1, 2017, through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amounts 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 as of June 30, were as follows:

	2017
District's proportionate share of the net pension liability	$ 74,125,000
State's proportionate share of the net pension liability associated with the District	42,202,000
Total	$ 116,327,000

At June 30, 2017, the net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2017, the District's proportion was .092 percent, which was a decrease of .013 percent from its proportion measured as of June 30, 2015.

NOTE 12 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

For the year ended June 30, 2017, the District recognized pension expense of $9,427,854 and revenue and pension expense of $3,616,980 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,808,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	5,893,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	8,214,000
Contributions made subsequent to measurement date	6,005,598	-
Total	$ 11,898,598	$ 10,022,000

$6,005,598 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	$ (1,374,183)
2019	$ (1,374,183)
2020	$ 1,334,068
2021	$ 511,567
2022	$ (1,698,933)
2023	$ (1,527,336)

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2016 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

NOTE 12 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions: The total pension liability for the 2016-17 STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015 and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis and June 30, 2015 Actuarial Program Valuations for more information.

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 as an input to the process. The actuarial investment rate of return assumption was adopted by the board in 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term* Expected Real Rate of Return
Global Equity	47%	6.30%
Private Equity	13%	9.30%
Real Estate	13%	5.20%
Inflation Sensitive	4%	3.80%
Fixed Income	12%	0.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Cash / Liquidity	2%	(1.00%)

* 20-year geometric average

(Continued)

NOTE 12 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

Discount Rate*:* The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those 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 the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*:* The following presents the District's proportionate share of the net pension liability as of June 30, 2017 calculated using the discount rate of 7.60 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability - 2017	$ 106,683,000	$ 74,125,000	$ 47,085,000

Pension Plan Fiduciary Net Position*:* Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

NOTE 13 - NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B

General Information about the Public Employer's Retirement Fund B

Plan Description*:* The schools cost-sharing multiple-employer defined benefit pension plan Public Employer's Retirement Fund B (PERF B) is administered by the California Public Employees' Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at:

- https://www.calpers.ca.gov/docs/forms-publications/cafr-2016.pdf

Benefits Provided: The benefits for the defined benefit plans are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

(Continued)

NOTE 13 - NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to $863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2017 were as follows:

Members – The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2016-17.

Employers – The employer contribution rate was 13.888 percent of applicable member earnings for fiscal year 2016-17.

The District contributed $6,760,065 to the plan for the fiscal year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of $72,981,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2016, the District's proportion was 0.370 percent, which was an increase of 0.007 percent from its proportion measured as of June 30, 2015.

(Continued)

NOTE 13 - NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

For the year ended June 30, 2017, the District recognized pension expense of $9,652,004. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,139,000	$ -
Changes of assumptions	-	2,193,000
Net differences between projected and actual earnings on investments	11,324,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	766,000	-
Contributions made subsequent to measurement date	6,760,065	-
Total	$ 21,989,065	$ 2,193,000

$6,760,065 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	$ 2,107,618
2019	$ 2,107,620
2020	$ 5,754,762
2021	$ 3,066,000

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2016 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

NOTE 13 - NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

Actuarial Methods and Assumptions: The total pension liability for the 2016-17 Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	June 30, 1997, through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Long-Term* Assumed Asset Allocation	Expected Real Rate of Return
Global Equity	51%	5.25%
Global Debt Securities	20%	0.99%
Inflation Assets	6%	0.45%
Private Equity	10%	6.83%
Real Estate	10%	4.50%
Infrastructure & Forestland	2%	4.50%
Liquidity	1%	(0.55)%

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent in fiscal year 2016-17. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS' website.

(Continued)

NOTE 13 - NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

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.

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 cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability as of June 30, 2017 calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability - 2017	$108,888,000	$ 72,981,000	$ 43,081,000

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description: In addition to the pension benefits described in Notes 12 and 13, the District provides postemployment health care benefits (OPEB) for retired employees in accordance with negotiated contracts with the various bargaining units of the District. The Other Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the San Mateo County Community College District. The District provides the OPEB benefits through a single employer defined benefit OPEB plan that is administered by Benefit Trust Company. OPEB provisions are established and amended per contractual agreement with employee groups. The plan does issue separate financial statements, which are produced by the District and available upon request. The following is a description of the current retiree benefit plan:

Academic Employees: Employees of the San Mateo County Community College District, upon meeting the years of District service requirement and the "Magic 75" which is employee's Age plus Years of District service, will qualify for retiree benefits as indicated in their union contract. Retiree Benefits package may differ depending on hire date. The years of District service required are 10 years if hired prior to September 8, 1993 and 20 years if hired on or after September 8, 1993.

(Continued)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

CSEA & All Non-represented Employees: Employees of the San Mateo County Community College District, upon meeting the years of District service requirement and the "Magic 75" which is employee's Age plus Years of District service, will qualify for retiree benefits as indicated in their union contract. Retiree Benefits package may differ depending on hire date. The years of District service required are 10 years if hired prior to July 1, 1992 and 20 years if hired on or after July 1, 1992.

AFCSME Employees: Employees of the San Mateo County Community College District, upon meeting the years of District service requirement and the "Magic 75" which is employee's Age plus Years of District service, will qualify for retiree benefits as indicated in their union contract. Retiree Benefits package may differ depending on hire date. The years of District service required are 10 years if hired prior to July 1, 1992 and 20 years if hired on or after July 1, 1992.

Benefit Payments: The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. The Plan is included in the District's financial report and separately presented as a fiduciary fund. Separate financial statements are also prepared for the Plan and may be obtained by contacting the San Mateo County Community College District.

During the year ended June 30, 2010 the District signed an irrevocable trust (the Trust) agreement. The District appointed a Board of Authority with authority to establish and amend benefits terms under the plan and make decisions on behalf of the District with respect to the *Futuris Public Entity Investment Trust Program*. The Benefit Trust Company was appointed as the custodian and trustee to administer the *Futuris Public Entity Investment Trust*.

Employees covered by benefit term: The following is a table of plan participants at June 30, 2017:

	Number of Participants
Inactive Employees/Dependents Receiving Benefits	686
Inactive Employees/Dependents Entitled to but not yet Receiving Benefits	-
Active Employees	947
	1,633

Contributions: Eligible employees are not permitted to make contributions to the Trust. The Plan administrator shall, on behalf of the employer, make all contributions to the Trustee. All contributions shall be paid to the Trustee for investment and reinvestment pursuant to the terms of the trust agreement. The District does not have contractually required contributions rates, but contributes in an amount sufficient to fully fund the Net OPEB obligation over a period not to exceed 30 years. Contributions to the Trust from the District were $15,230,215 for the year ended June 30, 2017.

(Continued)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Plan Investments: The plan discount rate of 7% was determined using the following asset allocation and assumed rate of return:

Asset Class	Percentage of Portfolio	Rate Return*
Fixed Income	50%	4%
Equities	50%	8%

*Geometric average

Rolling periods of time for all asset classes in combination we used to appropriately reflect correlation between asset classes. This means that the average returns for any asset class do not necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average. Additionally, the historic 20 year real rates of return for each asset class along with the assumed long-term inflation assumption was used to set the discount rate. The investment return was offset by assumed investment expenses of 25 basis points. It was further assumed that contributions to the plan would be sufficient to fully fund the obligation over a period not to exceed 30 years.

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

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

Valuation date	June 30, 2017
Measurement date	June 30, 2017
Census data	The census data was provided by the District as of June 30, 2016
Actuarial cost methods	Entry age actuarial cost method
Inflation rate	2.75%
Investment rate of return	7.00%
Discount rate	7.00%
Health care cost trend rate	4.00%
Payroll increase	2.75%
Participation rates	100% for certificated and classified employees.
Mortality	For certificated employees the 2009 CalSTRS mortality tables were used. For classified employees the 2014 CalPERS active mortality for miscellaneous employees were used.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Total Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, July 1, 2016	$113,624,603	$ 80,355,999	$ 33,268,604
Changes for the year:			
Service cost	3,269,290	-	3,269,290
Interest	7,305,828	-	7,305,828
Employer contributions	-	15,230,215	(15,230,215)
Net investment income	-	9,043,305	(9,043,305)
Administrative expense	-	(337,685)	337,685
Benefit payments	(7,230,215)	(7,230,215)	-
Net change	3,344,903	16,705,620	(13,360,717)
Balance, June 30, 2017	$116,969,506	$ 97,061,619	$ 19,907,887

Fiduciary Net Position as a % of the Total OPEB Liability, at June 30, 2017: 83%

Sensitivity of the net pension liability to assumptions: The following presents the net OPEB liability calculated using the discount rate of 7 percent. The schedule also shows what the net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6 percent) and 1 percent higher (8):

	Discount Rate 1% Lower (6%)	Valuation Discount Rate (7%)	Discount Rate 1% Higher (8%)
Net OPEB liability	$ 32,545,120	$ 19,907,887	$ 9,263,614

The following table presents the net OPEB liability calculated using the heath care cost trend rate of 4.0 percent. The schedule also shows what the net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percent lower (3.0 percent) and 1 percent higher (5.0 percent):

	Health Care Trend Rate 1% Lower (3.0%)	Valuation Health Care Trend Rate (4.0%)	Health Care Trend Rate 1% Higher (5.0%)
Net OPEB liability	$ 3,068,448	$ 19,907,887	$ 40,865,489

OPEB Expense: For the year ended June 30, 2017, the District recognized OPEB expense of $1,869,498.

(Continued)

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants: The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. 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.

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.

Operating Leases: The District has entered into various operating leases for equipment with no lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date

Construction Commitments: As of June 30, 2017, the District has approximately $243.4 million in outstanding commitments on construction contracts. The projects are funded through a combination of general obligation bonds and capital project apportionments from the State Chancellor's Office.

NOTE 16 - JOINT POWER AGREEMENTS

The District participates in joint ventures under joint power agreements with the following joint powers authorities (JPAs): School Excess Liability Fund (SELF) and San Mateo County School Insurance Group (SMCSIG). There have been no significant reductions in insurance coverage from the prior year. The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. The JPAs arrange for and provide property, liability, workers' compensation, dental, vision, and excess liability coverage for their members. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year end assets, liabilities, or fund equity is not calculated by the JPA's. Separately issued financial statements can be requested from each JPA.

(Continued)

NOTE 16 - JOINT POWER AGREEMENTS (Continued)

Condensed financial information of the JPAs for the most recent year available is as follows:

	SELF June 30, 2016	SMCSIG June 30, 2016
Total assets	$ 138,820,266	$ 22,030,490
Total deferred outflows of resources	$ 266,414	$ 443,058
Total liabilities	$ 117,306,926	$ 10,785,422
Total deferred inflow of resources	$ 245,133	$ 282,729
Net position	$ 21,534,621	$ 11,405,397
Total revenues	$ 13,898,598	$ 40,626,795
Total expenses	$ 24,553,606	$ 39,473,157
Change in net position	$ (10,655,008)	$ 1,153,638

REQUIRED SUPPLEMENTARY INFORMATION

	2017
Total OPEB liability	
Service Cost	$ 3,269,290
Interest	7,305,828
Benefit payments	(7,230,215)
Net change in total OPEB liability	3,344,903
Total OPEB liability, beginning of year	113,624,603
Total OPEB liability, end of year (a)	$116,969,506
Plan fiduciary net position	
Employer contributions	15,230,215
Actual Investment Income	9,043,304
Administrative expense	(337,684)
Benefits payment	(7,230,215)
Change in plan fiduciary net position	16,705,620
Fiduciary trust net position, beginning of year	80,355,999
Fiduciary trust net position, end of year (b)	$ 97,061,619
Net OPEB liability, ending (a) - (b)	$ 19,907,887
Covered payroll	$83,799,966
Plan fiduciary net position as a percentage of the total OPEB liability	83%
Net OPEB liability as a percentage of covered payroll	24%

This is a 10 year schedule, however the information in this schedule is not required to be presented restrospectively.

State Teacher's Retirement Plan

	2015	2016	2017
District's proportion of the net pension liability	0.105%	0.105%	0.092%
District's proportionate share of the net pension liability	$ 60,122,504	$ 70,426,000	$ 74,125,000
State's proportionate share of the net pension liability associated with the District	37,062,000	37,248,000	42,202,000
Total net pension liability	$ 97,184,504	$107,674,000	$116,327,000
District's covered payroll	$ 46,781,000	$ 48,554,000	$ 45,675,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	128.52%	145.05%	162.29%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%

The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

All years prior to 2015 are not available.

(Continued)

SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2017

Public Employers Retirement Fund B

	2015	2016	2017
District's proportion of the net pension liability	0.358%	0.363%	0.37%
District's proportionate share of the net pension liability	$ 40,542,482	$ 53,485,000	$ 72,981,000
District's covered payroll	$ 37,548,000	$ 40,172,000	$ 44,332,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	107.98%	133.14%	164.62%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%

The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

All years prior to 2015 are not available.

State Teachers' Retirement Plan

	2015	2016	2017
Contractually required contribution	$ 4,311,554	$ 4,900,874	$ 6,005,598
Contributions in relation to the contractually required contribution	$ 4,311,554	$ 4,900,874	$ 6,005,598
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered payroll	$ 48,554,000	$ 45,675,000	$ 47,739,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%

All years prior to 2015 are not available.

(Continued)

Public Employers Retirement Fund B

	2015	2016	2017
Contractually required contribution	$ 4,728,591	$ 5,252,004	$ 6,760,065
Contributions in relation to the contractually required contribution	$ 4,728,591	$ 5,252,004	$ 6,760,065
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered payroll	$ 40,172,000	$ 44,332,000	$ 48,676,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%

All years prior to 2015 are not available.

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Changes in Net Other Postemployment Benefits (OPEB) Liability and Related Ratios

The Schedule of Changes in Net OPEB liability is presented to illustrate the elements of the District's Net OPEB liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

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

The Schedule of the District's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

C - Schedule of the District's Contributions (Pensions)

The Schedule of the District's Contributions is presented to illustrate the District's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D - Changes of Benefit Terms (Pensions)

There are no changes in benefit terms reported in the Required Supplementary Information.

E - Changes of Assumptions (Pensions)

The discount rate for Public Employer's Retirement Fund was 7.50, 7.65 and 7.65 percent in June 30, 2013, 2014 and 2015 actuarial reports, respectively. There are no changes in assumptions reported for the State Teachers' Retirement Plan and the OPEB liability.

SUPPLEMENTARY INFORMATION

The San Mateo County Community College District was established in 1922, and includes three college campuses located in San Mateo County. There were no changes in the boundaries of the District during the current year. The District's three colleges are each accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges.

BOARD OF TRUSTEES

Members	Office	Term Expires
Thomas Mohr	President	2018
Richard Holober	Vice President-Clerk	2018
Karen Schwarz	Trustee	2020
Maurice Goodman	Trustee	2020
Dave Mandelkern	Trustee	2020
Alfredo Olguin Jr.	Student Trustee	2018

ADMINISTRATION

Mr. Ron Galatolo
Chancellor

Ms. Kathy Blackwood
Executive Vice Chancellor

Mr. Michael Claire
President, College of San Mateo

Dr. Jamillah Moore
President, Cañada College

Dr. Regina Stanback-Stroud
President, Skyline College

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grant Number	Sub-recipient Award Amount	Federal Expend-itures
Department of Education				
Direct Programs:				
Student Financial Aid Cluster:				
Federal Work Study Program	84.033	-	$ -	$ 400,545
Pell Grant Program	84.063	-	-	13,341,295
SEOG	84.007	-	-	471,735
Direct Student Loans	84.268	-	-	1,632,105
Subtotal Student Financial Aid Cluster			-	15,845,680
TRIO Cluster:				
Student Support Services	84.042A	-	-	750,485
Upward Bound	84.047A	-	-	249,857
Subtotal TRIO Cluster			-	1,000,342
Higher Education Program:				
Higher Education -Institutional Aid HSI STEM	84.031C	-	86,139	1,160,706
Higher Education -Institutional Aid HSI Coop	84.031S	-	-	1,221,898
Subtotal Higher Education			86,139	2,382,604
Minority Science and Engineering Improvement	84.120	-	71,333	297,176
Passed through California Community Colleges Chancellor's Office:				
CTEA I-C Basic Grants to States	84.048A	16-C01-052	-	628,005
Passed through California Department of Rehabilitation:				
Vocational Rehabilitation-Workability	84.126A	29824	-	38,488
Total Department of Education			157,472	20,192,295
Department of Health and Human Services				
Passed through California Community Colleges Chancellor's Office:				
Temporary Assistance for Needy Families Cluster (TANF)	93.558	Not available	-	88,556
Passed through California Department of Education/CDTC:				
Child Care Development Cluster:				
Child Care and Development Block Grant	93.575	16-17-3939, 16-17-4047, CCTR6255	-	29,016
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR6252	-	18,324
Subtotal Child Care Development Cluster			-	47,340
Total Department of Health and Human Services			-	135,896

(Continued)

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grant Number	Sub-recipient Award Amount	Federal Expend-itures
Department of Agriculture				
Passed through California Department of Education:				
Child and Adult Care Food program	10.558	1754-0A	$ -	$ 25,834
Passed through California Department of Food and Agriculture				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	16-0415-SF	-	5,508
Total Department of Agriculture			-	31,342
National Science Foundation				
Direct Program:				
Education and Human Resources	47.076	-	77,786	407,020
Passed through University of New Haven:				
Engineering Grants	47.041	EEC-1360987	-	8,925
Total National Science Foundation			77,786	415,945
National Aeronautics and Space Administration				
Direct Program:				
Minority University Research And Education Program	43.008	-	-	1,035
Small Business Administration				
Passed through Humboldt State University Sponsored Programs Foundation:				
Small Business Development Centers	59.037	F0908, F0129	-	114,597
Passed through California Community Colleges Chancellor's Office:				
State Trade and Export Promotion Pilot Grant Program	59.061	F16-0059	-	28,674
Total Small Business Administration			-	143,271
Department of the State				
Passed through International Research and Exchanges Board::				
Academic Exchange Programs - Undergraduate Programs	19.009	FY17-YALI-BE-SKY-01	-	73,213
Federal Communications Commission				
TV Broadcaster Relocation Fund	32-U01	DA 17 - 282	-	14,588
Department of Transportation				
Passed through San Francisco Bay Area Rapid Transit District:				
Public Transportation Research, Technical Assistance, and Training	20.514	Not Available	-	104,783
Total Federal Programs			$ 235,258	$ 21,112,368

See accompanying note to supplementary information.

	Program Revenues				
	Cash Received*	Accounts Receivable	Unearned Revenue	Total Revenue	Total Program Expenditures
General Fund					
Disabled Students Programs and Services	$ 1,957,562	$ -	$ 10,215	$ 1,947,347	$ 1,947,347
Extended Opportunity Programs and Services	1,730,757	-	-	1,730,757	1,730,757
CARE/EOPS	151,312	-	-	151,312	151,312
Student Success and Support Program	6,559,799	-	1,112,193	5,447,606	5,447,606
Foster Parent Training	42,034	37,841	-	79,875	79,875
Foster Care CSEC Workshops	2,550	500	-	3,050	3,050
FA Administrative Allowance	878,859	-	-	878,859	878,859
AB1725 Staff Diversity	62,379	-	60,319	2,060	2,060
T-Com and Technology (TTIP)	12,694	-	12,694	-	-
CalWORKS	407,994	1	-	407,995	407,995
Canada/RCSD CBET Program	7,627	42,373	-	50,000	50,000
Staff Development	14,745	-	14,123	622	622
MESA/CCCP Funds for Student Success	85,192	58,241	-	143,433	143,433
Lottery-Prop 20-Instructional Materials	64,744	807,230	-	871,974	810,181
Nursing-Enrollment Growth	110,179	9,621	-	119,800	119,800
YEP	(15,000)	15,000	-	-	-
CCCCO-CEP-CAA	580,000	137,754	-	717,754	717,754
CCCCO-Strong Workforce Program 60%	2,076,866	-	1,838,800	238,066	238,066
CCCCO-FA Awareness	15,000	-	7,410	7,590	7,590
El Cam-Sect Nav-Retail	-	13,400	-	13,400	13,400
CCCD CTE Enhancement CAN	5,325	-	-	5,325	5,325
CCCD CTE Enhancement CSM	52,015	1	-	52,016	52,016
Peralta CCD Prop. 39 Improvement Funds	18,912	40,712	-	59,624	59,624
Student Equity	2,890,505	-	552,061	2,338,444	2,338,444
Cabrillo CCD DSN/BEC Mini-Grant	15,780	3,160	-	18,940	18,940
Assessment, Remediation AD Nursing	73,453	6,347	-	79,800	79,800
SCCCD Innovation and Effectiveness	350,000	-	272,778	77,222	77,222
RSCCD CTE Data Unlocked Initiative	150,000	-	127,859	22,141	22,141
Deputy Navigator - Global 15-16	(161,727)	220,000	-	58,273	58,273
Deputy Navigator - Global 16-17	120,000	110,393	-	230,393	230,393
Deputy Navigator - Retail 15-16	(127,605)	180,000	-	52,395	52,395
Deputy Navigator - Retail 16-17	120,000	132,592	-	252,592	252,592
FHDACCD - DSN Energy 14-15	12,000	-	-	12,000	12,000
Basic Skills 15-16 appropriation	193,948	-	-	193,948	193,948
Basic Skills 16-17 appropriation	270,000	-	189,754	80,246	80,246
SBDC - HSUSPF GO - Biz	4,855	2,645	-	7,500	7,500
UC Regents Puente Program	4,500	1,500	-	6,000	6,000
UC Regents Puente Program - Canada	4,500	-	-	4,500	4,500
IEPI CCC Leadership Development	50,000	-	30,498	19,502	19,502
SMC HSA CalFresh	8,836	-	-	8,836	8,836
Feather River CCD IDRC Skyline	5,000	-	5,000	-	-
FHDACCD SB1070 CTE SWPC	10,000	20,000	-	30,000	30,000
FHDACCD - DSN Energy	5,000	-	-	5,000	5,000
Full-Time Student Success Grant	430,388	-	96,188	334,200	334,200
SJECCD Calif Career Pathways Trust	122,331	23,207	-	145,538	145,538
Cabrillo CCD DSN Sm Bus Mini-Grant	8,179	-	-	8,179	8,179
Cabrillo CCD Strong Workforce 40%	-	25,918	-	25,918	25,918
Cabrillo CCD DSN Sm Bus Mini-Grant	15,000	3,947	-	18,947	18,947
Baccalaureate Pilot Degree Program	331,573	-	190,967	140,606	140,606
SMUHSD - ACCEL AEBG - 12/31/17	223,394	-	9,277	214,117	214,117
SMUHSD - ACCEL AEBG - 12/31/18	483,580	-	329,024	154,556	154,556
Cabrillo CCD DSN Freelance Mgmt	9,814	-	-	9,814	9,814
Ohlone CCD DSN Biotech Summer	11,759	6,487	-	18,246	18,246
Chabot - LP CCD IDRC Skyline Auto	-	6,724	-	6,724	6,724
Promise Innovation Grant CCCCO	1,500,000	-	1,444,506	55,494	55,494

(Continued)

	Program Revenues				
	Cash Received*	Accounts Receivable	Unearned Revenue	Total Revenue	Total Program Expenditures
CDE Child Development	$ 253,926	$ 2,893	$ 139,832	$ 116,987	$ 116,987
CalSTRS On-Behalf Payments	348,308	-	-	348,308	348,308
SCCCD IEPI Assessment	300,000	-	292,593	7,407	7,407
Sierra College CCC Maker Grant	20,000	20,000	-	40,000	40,000
Proposition 39	640,020	-	-	640,020	-
Scheduled Maintenance	2,820,900	-	-	2,820,900	-
Cal Grant	1,140,305	14,768	5,359	1,149,714	1,149,714
Total	$ 27,480,067	$ 1,943,255	$ 6,741,450	$ 22,681,872	$ 19,159,159

*Cash received includes funds received in prior years.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR STATE
GENERAL APPORTIONMENT ANNUAL ATTENDANCE
Annual Attendance as of June 30, 2017

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2016 only)			
1. Noncredit	9	-	9
2. Credit	2,032	-	2,032
B. Summer Intersession (Summer 2016 - Prior to July 1, 2017)			
1. Noncredit	-	-	-
2. Credit	-	-	-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
a. Weekly Census Contact Hours	11,064	-	11,064
b. Daily Census Contact Hours	479	-	479
2. Actual Hours of Attendance Procedure Courses			
a. Noncredit	49	-	49
b. Credit	536	-	536
3. Alternative Attendance Accounting Procedure			
a. Weekly Census Procedure Courses	2,024	-	2,024
b. Daily Census Procedure Courses	199	-	199
c. Noncredit Independent Study/Distance Ed	-	-	-
D. Total FTES	16,392	-	16,392
Supplementary Information:			
E. In-Service Training Courses (FTES)	-	-	-
H. Basic Skills Courses and Immigrant Education			
a. Noncredit	37	-	37
b. Credit	1,229	-	1,229
CCFS 320 Addendum			
CDCP	-	-	-
Center FTES			
a. Noncredit	-	-	-
b. Credit	-	-	-

See accompanying note to supplementary information.

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

General fund		$ 47,559,303
Debt service fund		53,012,421
Special revenue funds		16,672,717
Capital projects funds		209,642,303
Internal service fund		7,716,514
Auxiliary funds		12,362,334
Total fund balances - business-type activity funds		346,965,592
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. However, capital assets, net of accumulated depreciation are added to total net assets.		
Total District capital assets	$ 615,330,791	
less Special revenue fund capital assets	(248,506)	
		615,082,285
In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported:		
Deferred outflows of resources relating to pensions	$ 33,887,663	
Deferred inflows of resources relating to pensions	(12,215,000)	
		21,672,663
Unmatured interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		(8,879,029)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2017 consisted of:		
General obligation bonds	$ (611,812,998)	
Unamortized bond premiums	(46,480,680)	
Accreted interest	(201,122,977)	
Net pension liability	(147,106,000)	
Net OPEB liability	(19,907,887)	
Compensated absences	(5,043,433)	
Accounts payable	1,000,000	
		(1,030,473,975)
Losses on refundings of debt are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding of the debt.		14,212,239
Total net position - business-type activities		$ (41,420,225)

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
For the Year Ended June 30, 2017

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional salaries:							
Contract or regular	1100	$ 24,285,494	$ -	$ 24,285,494	$ 24,347,423	$ -	$ 24,347,423
Other	1300	18,881,707	-	18,881,707	18,882,292	-	18,882,292
Total instructional salaries		43,167,201	-	43,167,201	43,229,715	-	43,229,715
Non-instructional salaries:							
Contract or regular	1200	-	-	-	13,375,672	-	13,375,672
Other	1400	-	-	-	1,334,175	-	1,334,175
Total non-instructional salaries		-	-	-	14,709,847	-	14,709,847
Total academic salaries		43,167,201	-	43,167,201	57,939,562	-	57,939,562
Classified Salaries							
Non-instructional salaries:							
Regular status	2100	-	-	-	28,511,170	-	28,511,170
Other	2300	-	-	-	2,450,791	-	2,450,791
Total non-instructional salaries		-	-	-	30,961,961	-	30,961,961
Instructional aides:							
Regular status	2200	1,999,090	-	1,999,090	2,090,217	-	2,090,217
Other	2400	473,775	-	473,775	511,570	-	511,570
Total instructional aides		2,472,865	-	2,472,865	2,601,787	-	2,601,787
Total classified salaries		2,472,865	-	2,472,865	33,563,748	-	33,563,748
Employee benefits	3000	20,022,533	-	20,022,533	39,526,449	-	39,526,449
Supplies and materials	4000	-	-	-	1,855,268	-	1,855,268
Other operating expenses	5000	24,365	-	24,365	11,572,616	-	11,572,616
Equipment replacement	6420	-	-	-	-	-	-
Total expenditures prior to exclusions		$ 65,686,964	$ -	$ 65,686,964	$144,457,643	$ -	$144,457,643

(Continued)

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
For the Year Ended June 30, 2017

Exclusions	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110 Reported Data	Audit Adjustments	Revised Data	Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799 Reported Data	Audit Adjustments	Revised Data
Activities to exclude:							
Instructional staff-retirees' benefits and retirement incentives	5900	$ 4,289,139	$ -	$ 4,289,139	$ 4,289,139	$ -	$ 4,289,139
Student health services above amount collected	6441	-	-	-	6,699	-	6,699
Student transportation	6491	-	-	-	18,485	-	18,485
Noninstructional staff-retirees' benefits and retirement incentives	6740	-	-	-	2,941,076	-	2,941,076
Objects to exclude:							
Rents and leases	5060	-	-	-	89,625	-	89,625
Lottery expenditures		-	-	-	-	-	-
Academic salaries	1000	-	-	-	2,571,288	-	2,571,288
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		-	-	-	-	-	-
Other operating expenses and services	5000	-	-	-	-	-	-
Capital outlay	6000	-	-	-	-	-	-
Library books	6300	-	-	-	-	-	-
Equipment:							
Equipment - additional	6410	-	-	-	-	-	-
Equipment - replacement	6420	-	-	-	-	-	-
Total equipment		-	-	-	-	-	-
Total capital outlay		-	-	-	-	-	-
Other outgo	7000	-	-	-	-	-	-
Total exclusions		4,289,139	-	4,289,139	9,916,312	-	9,916,312
Total for ECS 84362, 50% Law		$ 61,397,825	$ -	$ 61,397,825	$ 134,541,331	$ -	$ 134,541,331
Percent of CEE (instructional salary cost /Total CEE)		45.63 %	-	45.63 %	100.00%	-	100.00%
50% of current expense of education		-	-	-	$ 67,270,666	-	$ 67,270,666

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
PROPOSITION 55 EDUCATION PROTECTION ACCOUNT (EPA) EXPENDITURE REPORT
For the Year Ended June 30, 2017

EPA Proceeds: $ 1,640,671

Activity Classification	Activity Code (0100-5900)	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	$ 1,359,821	$ -	$ -	$ 1,359,821
Course and curriculum development		-	-	-	-
Media	6130	142,780	-	-	142,780
Counseling and guidance		-	-	-	-
Custodial services	6530	138,070	-	-	138,070
Grounds maintenance and repairs		-	-	-	-
Planning, policy making and coordination		-	-	-	-
Total expenditures		$ 1,640,671	$ -	$ -	$ 1,640,671
Revenues less expenditures					$ -

See accompanying note to supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of San Mateo Community College District, and is presented on the 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). Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, Cost Principles for Educational Institutions or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total federal revenues per Statement of Revenues, Expenses, and Change in Net Position		$ 21,113,583
Unrestricted federal - other		(1,215)
Total Federal Programs		$ 21,112,368

B - Schedule of State Financial Awards

The accompanying Schedule of State Financial Awards includes State grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented to comply with reporting requirements of the California Community College Chancellor's Office.

C - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students 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 are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

D - 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 CCFS-311 to the audited financial statements.

E - Reconciliation of Governmental Funds to the Statement of Net Position

This schedule provides the information necessary to reconcile the fund balances to the audited financial statements.

(Continued)

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

F - Reconciliation of ECS 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.

G - Proposition 55 Education Protection Account (EPA) Expenditure Report

This schedule provides information about the District's EPA proceeds and summarizes how the EPA proceeds were spent.

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Trustees
San Mateo County Community College District
San Mateo, California

Report on Compliance with State Laws and Regulations

We have audited the compliance of San Mateo County Community College District with the types of compliance requirements described in Section 400 of the *California State Chancellor's Office's California Community College Contracted District Audit Manual (CDAM)* that are applicable to community colleges in the State of California for the year ended June 30, 2017:

Salaries of Classroom Instructors (50 Percent Law)
Apportionment for Instructional Service Agreements/Contracts
State General Apportionment Funding System
Residency Determination for Credit Courses
Students Actively Enrolled
Dual Enrollment of K-12 Students in Community College Credit Courses
Student Equity
Student Success and Support Program (SSSP)
Scheduled Maintenance Program
Gann Limit Calculation
Open Enrollment
Proposition 39 Clean Energy
Intersession Extension Program
Disabled Student Programs and Services (DSPS)
To Be Arranged Hours (TBA)
Proposition 1D and 51 State Bond Funded Projects
Proposition 55 Education Protection Account Funds

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on San Mateo County Community College District's compliance with state laws and regulations as listed above 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 *California State Chancellor's Office's California Community College Contracted District Audit Manual* (Audit Manual). Those standards and the Audit Manual require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on San Mateo County Community College District's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about San Mateo County Community College 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 in compliance with state laws and regulations. However, our audit does not provide legal determination of San Mateo County Community College District's compliance with those requirements.

(Continued)

Basis for Qualified Opinion on Compliance with State Laws and Regulations

As described in Finding 2017-001 in the accompanying Schedule of Audit Findings and Questioned Costs, San Mateo County Community College District did not comply with the requirements regarding Salaries of Classroom Instructors (50 Percent Law). Compliance with such requirements is necessary, in our opinion, for San Mateo County Community College District to comply with state laws and regulations referred to above.

Qualified Opinion on Compliance with State Laws and Regulations

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, San Mateo County Community College District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations for the year ended June 30, 2017.

Other Matter

San Mateo County Community College District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. San Mateo Community College District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of compliance and the results of that testing based on requirements of the *Contracted District Audit Manual*. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 8, 2017

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 Mateo County Community College District
San Mateo, 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, the fiduciary activities and the discretely presented component unit of San Mateo County Community College District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise San Mateo County Community College District's basic financial statements, and have issued our report thereon dated December 8, 2017. The financial statements of San Mateo County Community Colleges Educational Housing Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instance of reportable noncompliance associated with San Mateo County Community Colleges Educational Housing Corporation.

Internal Control Over Financial Reporting

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

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Mateo County Community College District's financial statements are free of 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 8, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees
San Mateo County Community College District
San Mateo, California

Report on Compliance for Each Major Federal Program

We have audited San Mateo County Community College District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of San Mateo County Community College District's major federal programs for the year ended June 30, 2017. San Mateo County Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statues, 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 San Mateo County Community College 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 San Mateo County Community College 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 San Mateo County Community College District's compliance.

Opinion on Each Major Federal Program

In our opinion, San Mateo County Community College 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, 2017.

(Continued)

Report on Internal Control Over Compliance

Management of San Mateo County Community College 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 San Mateo County Community College 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 San Mateo County Community College 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.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 8, 2017

FINDINGS AND RECOMMENDATIONS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______ Yes	X None reported
Noncompliance material to financial statements noted?	______ Yes	X No

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.033, 84.063, 84.007 and 84.268	Student Financial Aid Cluster
84.031C and 84.031S	Higher Education Program

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000	
Auditee qualified as low-risk auditee?	______ Yes	X** No

STATE AWARDS

Type of auditor's report issued on compliance for state programs:	Qualified - 50 Percent Law

**The District did not qualify as a low risk auditee due to the material weakness in internal control noted in the District's June 30, 2016 audit. The material weakness as described in prior year finding 2016-001 on page 93 of this report, related to financial accounting for the District's OPEB asset and a 2014 bond refunding. The finding did not involve grant activities or expenditures.

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2017-001 STATE COMPLIANCE - SIGNIFICANT DEFICIENCY - SALARIES OF CLASSROOM INSTRUCTORS (50 PERCENT LAW) (30000)

Criteria

Education Code Section 84362, commonly known as the 50 Percent Law, requires that a minimum of 50 percent of the district's Current Expense of Education (CEE) be expended during each fiscal year for "Salaries of Classroom Instructors."

Condition

The District failed to meet the required 50 percent minimum.

Effect

Less than 50 percent of the District's Current Expense of Education (CEE) was expended for salaries of classroom instructors, thereby the District is not in compliance with Education Code Section 84362.

Cause

The District has chosen to not be in compliance with the 50 Percent Law.

Fiscal Impact

Not determinable.

Recommendation

The District should come into compliance with the 50 Percent Law by expending a higher amount of the District's CEE for salaries of classroom instructors, or by reducing non-instructional costs.

Views of Responsible Officials

If the District chooses to come into compliance with the 50 Percent Law, the District will either increase instructional expenditures or reduce non-instructional expenditures.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding/Recommendation	Current Status	District Explanation If Not Fully Implemented
2016-001 Condition: The District's statement of net position prepared for the year ended June 30, 2015 did not include the net OPEB asset. The information about the net asset was only presented in the notes to the financial statements. In addition, the 2014 General Obligation Refunding Bond activity was not reflected correctly in the District's financial statements. Recommendation: We recommend that the District implement controls to ensure any net OPEB asset or liability and all debt activity are recorded correctly in the financial statements.	Implemented	
2016-002 Condition: The District failed to meet the required 50 percent minimum. Recommendation: The District should come into compliance with the 50 Percent Law by expending a higher amount of the District's CEE for salaries of classroom instructors, or by reducing non-instructional costs.	Not implemented.	See current year finding 2017-001.