

HARTNELL COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

June 30, 2017 and 2016

HARTNELL COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2017 and 2016

CONTENTS

| | |
|--|----|
| INDEPENDENT AUDITOR'S REPORT..... | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS..... | 4 |
| BASIC FINANCIAL STATEMENTS: | |
| STATEMENTS OF NET POSITION..... | 12 |
| STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION..... | 13 |
| STATEMENTS OF CASH FLOWS..... | 14 |
| STATEMENTS OF FIDUCIARY NET POSITION..... | 16 |
| STATEMENTS OF CHANGE IN FIDUCIARY NET POSITION..... | 18 |
| DISCRETELY PRESENTED COMPONENT UNIT - HARTNELL COLLEGE FOUNDATION - STATEMENTS OF FINANCIAL POSITION..... | 20 |
| DISCRETELY PRESENTED COMPONENT UNIT - HARTNELL COLLEGE FOUNDATION - STATEMENTS OF ACTIVITIES..... | 21 |
| NOTES TO THE BASIC FINANCIAL STATEMENTS..... | 23 |
| REQUIRED SUPPLEMENTARY INFORMATION: | |
| SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS..... | 58 |
| SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY..... | 59 |
| SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS..... | 61 |
| NOTE TO REQUIRED SUPPLEMENTARY INFORMATION..... | 63 |

HARTNELL COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2017 and 2016

CONTENTS
(Continued)

SUPPLEMENTARY INFORMATION:

| | |
|--|----|
| ORGANIZATION..... | 64 |
| SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS..... | 65 |
| SCHEDULE OF STATE FINANCIAL AWARDS..... | 67 |
| SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT..... | 68 |
| RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS..... | 69 |
| RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION..... | 70 |
| RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION..... | 71 |
| PROP 55 EPA EXPENDITURE REPORT..... | 73 |
| NOTE TO SUPPLEMENTARY INFORMATION..... | 74 |
| INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE REQUIREMENTS..... | 75 |
| 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..... | 77 |
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE..... | 79 |
| FINDINGS AND RECOMMENDATIONS: | |
| SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS..... | 81 |
| STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS..... | 85 |

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hartnell Community College District
Salinas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and fiduciary activities of Hartnell Community College District, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Hartnell 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 audits. We conducted our audits 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 Hartnell College Foundation, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit and fiduciary activities of the Hartnell Community College District, as of June 30, 2017 and 2016, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

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 11 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress and Employer Contributions, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 58 to 62 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 Hartnell 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.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents 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 expenditures of federal awards and other supplementary information as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017 on our consideration of Hartnell 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 Hartnell Community College District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Sacramento, California
November 30, 2017

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2017**

USING THIS ANNUAL REPORT

In accordance with generally accepted accounting principles, the annual report consists of three basic financial statements that provide information on Hartnell Community College District's (the District) activities as a whole: the Statement of Net Position; the Statement of Revenues, Expenses, and Change in Net Position; and the Statement of Cash Flows.

The focus of the Statement of Net Position is designed to show the financial position of the District. This statement combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Change in Net Position focuses on the costs of the District's operational activities, which are supported mainly by property taxes and State revenues. This approach is intended to summarize and simplify the user's analysis of the costs of various District services to students and the public. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

Responsibility for the completeness and accuracy of this information rests with the District management.

FINANCIAL HIGHLIGHTS

- The District's primary funding source is based upon apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the 2016-17 fiscal year, second principal apportionment (P2) at June 2017 was 7,345 as compared to 2015-16 at 7,294 and 2014-15 at 7,160.
- During the 2016-17 fiscal year, the District provided over \$13 million in financial aid to students. This aid was provided in the form of grants, scholarships, and tuition discounts funded through the Federal government, State Chancellor's Office, and local funding.
- The District passed \$167 million in general obligation bonds in November 2016 for the construction and renovation of buildings and equipment throughout the District. These projects were approved by the voters within the District's boundaries. The first series of \$69 million was issued in August 2016. Proceeds were received in September 2017. The projects slated for the first series of the bond include a Health Science and Nursing building, Soledad Education Center, North County Education Center, King City Education Center expansion and several Main Campus renovations and improvements.

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

This schedule has been prepared from the District's Statement of Net Position in the audited financial statements, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Cash and short-term investments consist primarily of funds held in the Monterey County Treasury. The changes in the cash position are explained in the Statement of Cash Flows.

Unrestricted net position is composed of reserves for self-insurance, retiree health benefits, bookstore and cafeteria reserves, and general reserves for the ongoing financial health of the District.

During the 2016-17 fiscal year, the Science building was completed using prior GO Bond funds. In addition, the planning of projects from Measure T began. The District used unrestricted funds to pay for the Measure T projects in advance of the sales of the bonds in 17-18, thereby lowering the cash balances. Also, the total net position has declined significantly due to the required implementation of Governmental Accounting Standards Board Statement (GASB) No. 68. All public agencies that provide defined benefit pensions must recognize the long-term obligation for pension benefits as a liability. See Notes 9 and 10 of the Financial Statements for more detailed information.

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net Position as of June 30, 2017

| | (Amounts in thousands) | | |
|--|------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| ASSETS | | | |
| Current Assets | | | |
| Cash and investments | \$ 19,420 | \$ 18,505 | \$ 19,757 |
| Accounts receivable, net | 4,413 | 3,587 | 3,760 |
| Other current assets | 766 | 110 | 744 |
| Total Current Assets | 24,599 | 22,202 | 24,261 |
| Restricted cash and other non-current assets | 9,384 | 14,730 | 23,505 |
| OPEB asset | 2,477 | 2,443 | - |
| Capital Assets, net | 163,015 | 163,311 | 155,267 |
| Total Assets | <u>\$ 199,475</u> | <u>\$ 202,686</u> | <u>\$ 203,033</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | |
| Deferred outflows of resources - pensions | 10,271 | 4,024 | 2,729 |
| Deferred loss on refunding | 11,470 | 12,651 | 3,497 |
| Total deferred outflows | <u>21,741</u> | <u>16,675</u> | <u>6,226</u> |
| Total assets and deferred outflows of resources | <u>\$ 221,216</u> | <u>\$ 219,361</u> | <u>\$ 209,259</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable, accrued liabilities and other current liabilities | \$ 14,330 | \$ 14,032 | \$ 11,202 |
| Current portion of long-term obligations | 3,898 | 2,666 | 4,246 |
| Total Current Liabilities | 18,228 | 16,698 | 15,448 |
| Long-Term Obligations | 210,705 | 199,195 | 178,916 |
| Total Liabilities | <u>\$ 228,933</u> | <u>\$ 215,893</u> | <u>\$ 194,364</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources - pensions | <u>1,226</u> | <u>3,516</u> | <u>8,014</u> |
| NET POSITION | | | |
| Net investment in capital assets | 25,721 | 28,060 | 49,205 |
| Restricted | 9,191 | 9,515 | 7,435 |
| Unrestricted | <u>(43,855)</u> | <u>(37,623)</u> | <u>(49,759)</u> |
| Total Net Position | <u>(8,943)</u> | <u>(48)</u> | <u>6,881</u> |
| Total Liabilities and Net Position | <u>\$ 221,216</u> | <u>\$ 219,361</u> | <u>\$ 209,259</u> |

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2017**

This schedule has been prepared from the Statement of Revenues, Expenses, and Change in Net Position presented in the audited financial statements. Sales and charges consist of cafeteria revenues. The operations are self-supporting.

Operating Results for the Year Ended June 30, 2017

| | (Amounts in thousands) | | |
|---|------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| Operating Revenues | | | |
| Tuition and fees | \$ 2,656 | \$ 2,454 | \$ 2,283 |
| Grants and contracts | 23,613 | 21,055 | 14,116 |
| Sales and charges | 791 | 761 | 756 |
| Total Operating Revenues | <u>27,060</u> | <u>24,270</u> | <u>17,155</u> |
| Operating Expenses | | | |
| Salaries and benefits | 48,503 | 47,279 | 41,616 |
| Supplies, other operating expenses, and financial aid | 29,602 | 29,348 | 25,302 |
| Depreciation | 7,750 | 6,919 | 7,053 |
| Total Operating Expenses | <u>85,855</u> | <u>83,546</u> | <u>73,971</u> |
| Loss on Operations | <u>(58,795)</u> | <u>(59,276)</u> | <u>(56,816)</u> |
| Nonoperating Revenues and (Expenses) | | | |
| State apportionments | 17,105 | 17,413 | 15,562 |
| Property taxes | 22,133 | 21,726 | 20,699 |
| State revenues | 309 | 1,293 | 947 |
| Pell Grants | 10,811 | 10,962 | 11,292 |
| Interest income | 347 | 210 | 106 |
| Loss on disposal of assets | - | (816) | - |
| Other nonoperating revenues and (expenses) | 2,352 | 3,051 | 2,060 |
| Total Nonoperating Revenue and (Expenses) | <u>53,057</u> | <u>53,839</u> | <u>50,666</u> |
| Other Revenues, Expenses, Gains and Losses | | | |
| State and local capital income | 4,715 | 5,425 | 5,020 |
| Interest income, Capital | 98 | 139 | 157 |
| Interest expenses and losses | (7,970) | (7,056) | (7,420) |
| Total Revenues, Expenses, Gains and Losses | <u>(3,157)</u> | <u>(1,492)</u> | <u>(2,243)</u> |
| Decrease in Net Position | <u>\$ (8,895)</u> | <u>\$ (6,929)</u> | <u>\$ (8,393)</u> |

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2017**

Grant and contract revenues relate to student financial aid, as well as specific Federal and State grants received for programs serving the students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs.

Non-operating Revenues decreased slightly in 2016-17 due to a small reduction in state funding. A few State categorical programs received an increase in funding such as Disabled Student Programs and Services (DSPS), Student Success and Support Program (SSSP) as well as new categorical funding for Student Equity Plans (SEP).

Operating expenses continue to increase in 2016-17 due to a number of factors. The greatest increase was in salaries and benefits. The mandated increases in state pension costs for STRS and PERS along with standard step and column increases in salaries represent changes. There were a few new hires also.

Non-operating interest expense relates directly to debt service requirements of the general obligation bonds.

The District is recording the depreciation expense related to capital assets. The detail of the changes in capital assets for the year is included in the notes to the financial statements as Note 5.

The Statement of Cash Flows provides information about cash receipts and payments during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and its need for external financing.

Statement of Cash Flows for the Year Ended June 30, 2017

| | (Amounts in thousands) | | |
|---------------------------------|------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| Cash Provided by (Used in) | | | |
| Operating activities | \$ (50,333) | \$ (51,255) | \$ (51,508) |
| Noncapital financing activities | 51,926 | 54,092 | 54,748 |
| Capital financing activities | (6,463) | (14,075) | (12,922) |
| Investing activities | 346 | 210 | 106 |
| Net (Decrease) in Cash | (4,524) | (11,028) | (9,576) |
| Cash, Beginning of Year | 32,235 | 43,263 | 52,839 |
| Cash, End of Year | <u>\$ 27,711</u> | <u>\$ 32,235</u> | <u>\$ 43,263</u> |

The primary operating receipts are student tuition and fees and Federal, State, and local grants and contracts. The primary operating expense of the District is the payment of salaries and benefits to faculty and staff.

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2017**

While State apportionment, Education Protection Act funding and property taxes are the primary sources of noncapital related revenue, GASB accounting standards require that this source of revenue is shown as non-operating revenue because it comes from the general resources of the State and not from the primary users of the District's programs and services. The District depends upon this funding as the primary source of funds to continue the current level of operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the District had \$163 million in a broad range of capital assets, including land, buildings, and furniture and equipment, net of depreciation. At June 30, 2016, net capital assets were \$163.3 million. At June 30, 2015, net capital assets were \$155.2 million.

The majority of our West campus property was purchased in 1936 and 1954 from the U.S. Government. The Alisal campus property was purchased for \$1 from the U.S. Government in 1948. The King City Center was purchased in 2001 for \$1.2 million. Capital assets reported within these financial statements reflect the cost at the time of purchase. Current market values of our property are not reflected in the financial statements.

| | (Amounts in thousands) | | |
|-----------------------------------|------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| Land and construction in progress | \$ 773 | \$ 30,394 | \$ 20,129 |
| Buildings and improvements | 213,289 | 181,111 | 177,959 |
| Furniture and equipment | 20,430 | 15,534 | 18,236 |
| Subtotal | 234,492 | 227,039 | 216,324 |
| Accumulated depreciation | 71,478 | 63,728 | 61,058 |
| Totals | <u>\$ 163,014</u> | <u>\$ 163,311</u> | <u>\$ 155,266</u> |

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net Position as of June 30, 2017

Long-Term Obligations

At the end of the 2016-17 fiscal year, the District had \$165.8 million in bonds outstanding from the voter approved general obligation bonds and other long-term obligations. These bonds will be repaid annually through property taxes on assessed property within the Hartnell Community College District boundaries.

| | (Amounts in thousands) | | |
|--------------------------------|------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 as restated |
| General obligation bonds | \$ 165,859 | \$ 162,893 | \$ 149,329 |
| Premium on obligations | 2,571 | 2,612 | 3,513 |
| Net pension liability | 46,000 | 36,133 | 28,533 |
| Early retirement incentive | 173 | 222 | 273 |
| Other post employment benefits | (2,477) | (2,443) | 1,515 |
| Total | 212,126 | 199,417 | 183,163 |
| Less short term portion | (3,898) | (2,666) | (4,247) |
| Total long-term portion | <u>\$ 208,228</u> | <u>\$ 196,751</u> | <u>\$ 178,916</u> |

District bond ratings have improved as a result of the District's cash balances and increases to property values in recent years. Standard and Poor's Rating Services raised their rating from AA- to AA with a stable outlook.

HARTNELL COMMUNITY COLLEGE DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Position as of June 30, 2017

ECONOMIC FACTORS AFFECTING THE FUTURE OF HARTNELL COMMUNITY COLLEGE DISTRICT

The economic position of Hartnell Community College District is closely tied to the State of California as State apportionments and property taxes allocated to the District represent approximately 88 percent of the total sources of revenues received by the District for unrestricted general operating fund.

With the passage of Proposition 55, The Education Protection Act, funding for California educational institutions has stabilized. For fiscal year 2016-17, Hartnell College did not receive a COLA. Hartnell College did receive \$321k in growth funds for an additional 64 FTES. Hartnell increased property tax revenues by approximately \$1.2 million in 2016-17.

At the time the 2017-18 budget was developed, the following assumptions were made:

- The 2017-18 State budget for community colleges contains Cost of Living Allowance (COLA) increase at 1.56%
- The 2017-18 State budget for community colleges contains an increase of .50% in funding for growth.

The 2017-18 State budget for community colleges contains three new student assistance programs. They are \$87K for Nonresident Dreamer Emergency Aid Program, \$15K Hunger Free Campus Support and \$262K for Community College Completion Grant. The District received funds for Guided Pathways in the amount of \$231K to create a pipeline for student success. Included in categorical funding was \$498,386 for scheduled maintenance without the requirement for District match funds. This was later reduced to fund DACA programs. The state will allow, once again, for part of the funding to be used for educational equipment at the discretion of the District. The District also received \$209K in state compliance mandate funding. The District received Federal funding for Title V HSI Cultivamos for Dual Enrollment at \$550K annually for 5 years. The District received two Federal Upward Bound grants at \$500K combined annually.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions may be directed to the Vice President of Administrative Services, Hartnell Community College District, 411 Central Avenue, Salinas, CA 93901.

BASIC FINANCIAL STATEMENTS

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 18,326,263 | \$ 17,504,738 |
| Investments | 1,093,678 | 1,000,000 |
| Receivables, net | 4,413,022 | 3,586,792 |
| Prepaid expenses | 754,832 | 97,041 |
| Inventory | <u>11,745</u> | <u>13,184</u> |
| Total current assets | <u>24,599,540</u> | <u>22,201,755</u> |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 9,384,413 | 14,729,754 |
| OPEB asset | 2,477,323 | 2,443,603 |
| Depreciable capital assets | 162,241,291 | 132,917,307 |
| Non-depreciable capital assets | <u>772,744</u> | <u>30,393,695</u> |
| Total noncurrent assets | <u>174,875,771</u> | <u>180,484,359</u> |
| Total assets | <u>199,475,311</u> | <u>202,686,114</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources - pensions | 10,271,656 | 4,024,090 |
| Deferred loss on refunding of long-term liabilities | <u>11,469,757</u> | <u>12,651,211</u> |
| Total deferred outflows | <u>21,741,413</u> | <u>16,675,301</u> |
| Total assets and deferred outflows of resources | <u>\$ 221,216,724</u> | <u>\$ 219,361,415</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 8,529,977 | \$ 8,523,566 |
| Unearned revenue | 5,799,718 | 5,507,996 |
| Long-term liabilities - current portion | <u>3,897,885</u> | <u>2,666,448</u> |
| Total current liabilities | <u>18,227,580</u> | <u>16,698,010</u> |
| Noncurrent liabilities: | | |
| Long-term liabilities - noncurrent portion | <u>210,705,535</u> | <u>199,195,051</u> |
| Total liabilities | <u>228,933,115</u> | <u>215,893,061</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources - pensions | <u>1,226,000</u> | <u>3,516,000</u> |
| NET POSITION | | |
| Net investment in capital assets | 25,720,838 | 28,060,167 |
| Restricted for: | | |
| Expendable: | | |
| Capital projects and debt service | 9,076,841 | 9,443,765 |
| Other special purposes | 114,484 | 71,934 |
| Unrestricted | <u>(43,854,554)</u> | <u>(37,623,512)</u> |
| Total net position | <u>(8,942,391)</u> | <u>(47,646)</u> |
| Total liabilities and net position | <u>\$ 221,216,724</u> | <u>\$ 219,361,415</u> |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|---------------------|
| Operating revenues: | | |
| Tuition and fees | \$ 5,041,116 | \$ 5,241,880 |
| Less: scholarship discounts and allowances | <u>(2,385,013)</u> | <u>(2,787,828)</u> |
| Net tuition and fees | <u>2,656,103</u> | <u>2,454,052</u> |
| Grants and contracts, non-capital: | | |
| Federal | 4,215,603 | 4,774,893 |
| State | 19,397,429 | 16,280,484 |
| Auxiliary enterprise sales and charges | <u>791,353</u> | <u>761,152</u> |
| Total operating revenues | <u>27,060,488</u> | <u>24,270,581</u> |
| Operating expenses: | | |
| Salaries | 34,561,120 | 32,844,026 |
| Employee benefits | 13,941,696 | 14,435,777 |
| Supplies, materials, and other operating expenses and services | 16,486,188 | 16,122,179 |
| Student aid | 13,116,242 | 13,225,627 |
| Depreciation | <u>7,749,925</u> | <u>6,919,508</u> |
| Total operating expenses | <u>85,855,171</u> | <u>83,547,117</u> |
| Loss from operations | <u>(58,794,683)</u> | <u>(59,276,536)</u> |
| Non-operating revenues (expenses): | | |
| State apportionment, non-capital | 17,105,909 | 17,413,364 |
| Local property taxes | 22,133,482 | 21,725,952 |
| State taxes and other revenues | 309,000 | 1,293,432 |
| Pell grants | 10,811,118 | 10,961,989 |
| Interest and investment income, non-capital | 346,100 | 210,414 |
| Interest and investment income, capital | 97,804 | 138,516 |
| Interest expense on capital asset-related debt | (7,970,311) | (7,055,713) |
| Loss on disposal of assets | - | (816,451) |
| Other non-operating revenues, net | <u>2,351,658</u> | <u>3,051,246</u> |
| Total non-operating revenues (expenses) | <u>45,184,760</u> | <u>46,922,749</u> |
| Loss before capital revenues | <u>(13,609,923)</u> | <u>(12,353,787)</u> |
| Capital revenues: | | |
| Local property taxes and revenue, capital | <u>4,715,178</u> | <u>5,424,868</u> |
| Change in net position | (8,894,745) | (6,928,919) |
| Net position, beginning of the year | <u>(47,646)</u> | <u>6,881,273</u> |
| Net position, end of year | <u>\$ (8,942,391)</u> | <u>\$ (47,646)</u> |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Tuition and fees | \$ 2,208,388 | \$ 2,529,824 |
| Federal grants and contracts | 3,899,976 | 5,199,402 |
| State and local grants and contracts | 19,536,236 | 15,695,842 |
| Payments to students | (12,376,805) | (9,634,213) |
| Payments to suppliers and vendors | (17,136,129) | (16,325,638) |
| Payments to and on behalf of employees | (47,256,235) | (49,481,156) |
| Auxiliary enterprises sales and charges | <u>791,353</u> | <u>761,152</u> |
| Net cash used in operating activities | <u>(50,333,216)</u> | <u>(51,254,787)</u> |
| Cash flows from noncapital financing activities: | | |
| State appropriations | 17,105,909 | 17,413,364 |
| Local property taxes | 22,133,482 | 21,725,952 |
| State taxes and other revenues | 309,000 | 1,293,432 |
| Pell grants | 10,811,118 | 10,961,989 |
| Other receipts | <u>1,567,122</u> | <u>2,696,703</u> |
| Net cash provided by noncapital financing activities | <u>51,926,631</u> | <u>54,091,440</u> |
| Cash flows from capital and related financing activities: | | |
| Local property taxes and other revenues for capital purposes | 4,715,178 | 5,424,868 |
| Interest received on capital investments | 97,804 | 138,516 |
| Purchase of capital assets | (6,536,095) | (14,055,640) |
| Principal paid on capital debt | (2,625,000) | (3,743,864) |
| Interest paid on capital debt, net | <u>(2,115,218)</u> | <u>(1,839,212)</u> |
| Net cash used in capital and related financing activities | <u>(6,463,331)</u> | <u>(14,075,332)</u> |
| Cash flows provided by investing activities: | | |
| Interest on investments | <u>346,100</u> | <u>210,414</u> |
| Net decrease in cash and cash equivalents | (4,523,816) | (11,028,265) |
| Cash and cash equivalents, beginning of year | <u>32,234,492</u> | <u>43,262,757</u> |
| Cash and cash equivalents, end of year | <u>\$ 27,710,676</u> | <u>\$ 32,234,492</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|------------------------|------------------------|
| Reconciliation of loss from operations to net cash used in operating activities: | | |
| Loss from operations | \$ (58,794,683) | \$ (59,276,536) |
| Adjustments to reconcile loss from operations to net cash used in operating activities: | | |
| Depreciation expense | 7,749,925 | 6,919,508 |
| Changes in assets and liabilities: | | |
| Receivables, net | (176,820) | (160,133) |
| Inventory and prepaid expenses | (656,352) | 633,798 |
| Deferred outflows of resources - pensions | (6,247,566) | (1,294,823) |
| Accounts payable | 6,411 | (837,257) |
| Unearned revenue | 291,722 | 3,667,186 |
| Other postemployment benefits and early retirement incentive | (82,853) | (4,008,530) |
| Net pension liability | 9,867,000 | 7,600,000 |
| Deferred inflows of resources - pensions | <u>(2,290,000)</u> | <u>(4,498,000)</u> |
| Net cash used in operating activities | <u>\$ (50,333,216)</u> | <u>\$ (51,254,787)</u> |
| Supplementary disclosure of non-cash transactions: | | |
| Amortization of premiums on debt | \$ 41,448 | \$ 343,834 |
| Accretion of interest | \$ 5,590,502 | \$ 6,283,434 |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2017

| | <u>Student Trust Funds</u> | <u>Student Agency Fund</u> |
|---------------------------------------|--------------------------------|--------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 176,033 | \$ 298,125 |
| Receivables, net | <u>28,128</u> | <u>757</u> |
| Total assets | <u>\$ 204,161</u> | <u>\$ 298,882</u> |
| LIABILITIES | | |
| Accounts payable | \$ 6,237 | \$ 1,855 |
| Due to student groups | <u>-</u> | <u>297,027</u> |
| Total liabilities | <u>6,237</u> | <u>\$ 298,882</u> |
| NET POSITION | | |
| Restricted net position held in trust | <u>197,924</u> | |
| Total liabilities and net position | <u>\$ 204,161</u> | |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2016

| | <u>Student Trust Funds</u> | <u>Student Agency Fund</u> |
|---------------------------------------|--------------------------------|--------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 193,466 | \$ 357,791 |
| Receivables, net | <u>28,019</u> | <u>671</u> |
| Total assets | <u>\$ 221,485</u> | <u>\$ 358,462</u> |
| LIABILITIES | | |
| Accounts payable | \$ 15,832 | \$ 2,733 |
| Due to student groups | <u>-</u> | <u>355,729</u> |
| Total liabilities | <u>15,832</u> | <u>\$ 358,462</u> |
| NET POSITION | | |
| Restricted net position held in trust | <u>205,653</u> | |
| Total liabilities and net position | <u>\$ 221,485</u> | |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CHANGE IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2017

| | <u>Student Trust Funds</u> |
|---------------------------------|--------------------------------|
| Additions: | |
| Net investment income, net | |
| Dividends and interest | \$ 2,011 |
| Student fees | <u>102,452</u> |
| Total additions | <u>104,463</u> |
| Deductions: | |
| Operating expenses | <u>112,192</u> |
| Net decrease | (7,729) |
| Net position held in trust: | |
| Net position, beginning of year | <u>205,653</u> |
| Net position, end of year | <u>\$ 197,924</u> |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CHANGE IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2016

| | <u>Student Trust Funds</u> |
|---------------------------------|--------------------------------|
| Additions: | |
| Net investment income, net | |
| Dividends and interest | \$ 1,639 |
| Student fees | <u>85,715</u> |
| Total additions | <u>87,354</u> |
| Deductions: | |
| Operating expenses | <u>108,947</u> |
| Net decrease | (21,593) |
| Net position held in trust: | |
| Net position, beginning of year | <u>227,246</u> |
| Net position, end of year | <u>\$ 205,653</u> |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT -
HARTNELL COLLEGE FOUNDATION
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,676,033 | \$ 4,289,485 |
| Grants/Pledges receivable, net | 1,534,034 | 1,114,908 |
| Prepaid expenses | <u>36,757</u> | <u>44,055</u> |
| Total current assets | <u>6,246,824</u> | <u>5,448,448</u> |
| Noncurrent assets: | | |
| Pledges receivable, net of current portion | 460,000 | 765,000 |
| Investments | 9,417,126 | 7,394,763 |
| Property and equipment, net | <u>256,579</u> | <u>326,582</u> |
| Total noncurrent assets | <u>10,133,705</u> | <u>8,486,345</u> |
| Total assets | <u>\$ 16,380,529</u> | <u>\$ 13,934,793</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 318,339 | \$ 542,919 |
| Scholarships payable | 224,522 | 176,081 |
| Deferred revenue | <u>45,458</u> | <u>39,891</u> |
| Total current liabilities | <u>588,319</u> | <u>758,891</u> |
| NET ASSETS | | |
| Net assets: | | |
| Unrestricted | 1,030,916 | 836,816 |
| Temporarily restricted | 7,370,972 | 6,144,859 |
| Permanently restricted | <u>7,390,322</u> | <u>6,194,227</u> |
| Total net assets | <u>15,792,210</u> | <u>13,175,902</u> |
| Total liabilities and net assets | <u>\$ 16,380,529</u> | <u>\$ 13,934,793</u> |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT -
HARTNELL COLLEGE FOUNDATION
(A Nonprofit Organization)
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenues: | | | | |
| Donations | \$ 145,336 | \$ 3,802,935 | \$ 971,326 | \$ 4,919,597 |
| Special events | 260,965 | 117,062 | - | 378,027 |
| In-kind donations | 199,807 | 33,897 | - | 233,704 |
| Interest and dividends | 13,239 | 199,004 | - | 212,243 |
| Realized gain on investments | 14,531 | 270,704 | - | 285,235 |
| Unrealized gain on investments | 27,052 | 532,900 | - | 559,952 |
| Other revenue | 232,851 | 142,475 | - | 375,326 |
| Interfund transfers | (2,121) | (222,648) | 224,769 | - |
| Net assets released from restriction | <u>3,650,216</u> | <u>(3,650,216)</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>4,541,876</u> | <u>1,226,113</u> | <u>1,196,095</u> | <u>6,964,084</u> |
| Expenses: | | | | |
| Program | 3,955,359 | - | - | 3,955,359 |
| General and administrative | 211,232 | - | - | 211,232 |
| Fundraising | <u>181,185</u> | <u>-</u> | <u>-</u> | <u>181,185</u> |
| Total expenses | <u>4,347,776</u> | <u>-</u> | <u>-</u> | <u>4,347,776</u> |
| Change in net assets | <u>194,100</u> | <u>1,226,113</u> | <u>1,196,095</u> | <u>2,616,308</u> |
| Net assets, July 1, 2016 | <u>836,816</u> | <u>6,144,859</u> | <u>6,194,227</u> | <u>13,175,902</u> |
| Net assets, June 30, 2017 | <u>\$ 1,030,916</u> | <u>\$ 7,370,972</u> | <u>\$ 7,390,322</u> | <u>\$ 15,792,210</u> |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT -
HARTNELL COLLEGE FOUNDATION
(A Nonprofit Organization)
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenues: | | | | |
| Donations | \$ 181,341 | \$ 3,888,211 | \$ 910,583 | \$ 4,980,135 |
| Special events | 227,192 | 123,837 | - | 351,029 |
| In-kind donations | 200,956 | 63,314 | - | 264,270 |
| Interest and dividends | 2,542 | 169,081 | - | 171,623 |
| Realized gain on investments | - | 300,592 | - | 300,592 |
| Unrealized loss on investments | - | (551,822) | - | (551,822) |
| Other revenue | 124,446 | 185,152 | - | 309,598 |
| Interfund transfers | (16,319) | (37,166) | 53,485 | - |
| Net assets released from restriction | <u>2,704,924</u> | <u>(2,704,924)</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>3,425,082</u> | <u>1,436,275</u> | <u>964,068</u> | <u>5,825,425</u> |
| Expenses: | | | | |
| Program | 2,936,047 | - | - | 2,936,047 |
| General and administrative | 236,250 | - | - | 236,250 |
| Fundraising | <u>193,516</u> | <u>-</u> | <u>-</u> | <u>193,516</u> |
| Total expenses | <u>3,365,813</u> | <u>-</u> | <u>-</u> | <u>3,365,813</u> |
| Change in net assets | <u>59,269</u> | <u>1,436,275</u> | <u>964,068</u> | <u>2,459,612</u> |
| Net assets, July 1, 2015 | <u>777,547</u> | <u>4,708,584</u> | <u>5,230,159</u> | <u>10,716,290</u> |
| Net assets, June 30, 2016 | <u>\$ 836,816</u> | <u>\$ 6,144,859</u> | <u>\$ 6,194,227</u> | <u>\$ 13,175,902</u> |

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Hartnell Community College District (the "District") is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, 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.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) 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 Hartnell College Foundation (the "Foundation") as its potential component unit.

The Foundation is a nonprofit, tax-exempt organization dedicated to providing financial benefits generated from fundraising efforts and investment earnings to the District. The funds contributed by the Foundation to the benefit of the District are significant to the District's financial statements. The District applied the criteria for identifying component units in accordance with GASB Cod. Sec. 2100 and therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District's financial statements. Copies of the Foundation's annual financial report may be obtained from the District Office, 411 Central Avenue, Salinas, California 93901.

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 of 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.

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

The Foundation's financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred in accordance with accounting principles generally accepted in the United States of America. Classification of contributions is dependent upon whether the contribution is restricted or unrestricted. Net assets are classified on the Statements of Financial Position as unrestricted, temporarily restricted or permanently restricted net position based on the absence or existence of donor-imposed restrictions.

Basis of Accounting: The District records revenues when earned and expenses when a liability is incurred regardless of the timing of the related cash flow. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's *Budget and Accounting Manual*.

Cash and Cash Equivalents: For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the County Treasury are considered cash equivalents and are stated at fair value.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash and Cash Equivalents: Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as noncurrent assets in the Statements of Net Position.

Fair Value of Investments - Foundation: The Foundation's investments are valued at fair value based upon quoted market prices, when available, or estimates of fair value in the Statements of Financial Position and unrealized and realized gains and losses are included in the Statements of Activities.

Receivables: Receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance is based upon management's estimates and analysis. The allowance was estimated at \$297,899 and \$307,343 as of June 30, 2017 and 2016, respectively.

Pledges Receivable - Foundation: Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. An allowance for uncollectible pledges receivable is established based upon estimated losses related to specific amounts and is recorded through a provision for bad debt which is charged to expense. At June 30, 2017 and 2016, management has determined that an allowance for uncollectible pledges is not necessary. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates commensurate with risks applicable in the years in which those promises are received. As of June 30, 2017 and 2016, the Foundation has not applied a present value discount as the amount was not significant and all pledges are receivable in one to five years.

Inventory: Inventory consists of cafeteria food and educational supplies. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or, if donated, at acquisition value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 – 50 years depending on asset type.

The District capitalizes interest paid on obligations related to the acquisition, construction or rehabilitation of District capital assets. Interest incurred and capitalized totaled \$9,947,328 and \$916,863, respectively, for the year ended June 30, 2017. Interest incurred and capitalized totaled \$8,247,800 and \$1,725,194, respectively, for the year ended June 30, 2016.

Compensated Absences: Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Sick Leave: Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and PERS employees, when the employee retires.

Unearned Revenue: Revenues 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.

Deferred Outflows/Inflows of Resources: In addition to assets, the Statements of Net Position include 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, which is in the Statements 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. During the year ended June 30, 2016, the District refunded debt which resulted in an additional deferred loss on refunding of \$9,687,645. Amortization for deferred losses on refunding for the years ended June 30, 2017 and 2016 were \$1,181,454 and \$533,608 respectively. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the pension liability reported in the Statements of Net Position.

In addition to liabilities, the Statements of Net Position reports 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. For the years ended June 30, 2017 and 2016, the District has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statements 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) and Public Employers Retirement Fund B (PERF B) 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 as of June 30, 2017:

| | <u>CalSTRS</u> | <u>CalPERS</u> | <u>Total</u> |
|--------------------------------|----------------------|----------------------|----------------------|
| Deferred outflows of resources | <u>\$ 4,627,709</u> | <u>\$ 5,643,947</u> | <u>\$ 10,271,656</u> |
| Deferred inflows of resources | <u>\$ 677,000</u> | <u>\$ 549,000</u> | <u>\$ 1,226,000</u> |
| Net pension liability | <u>\$ 27,739,000</u> | <u>\$ 18,261,000</u> | <u>\$ 46,000,000</u> |
| Pension expense | <u>\$ 4,071,972</u> | <u>\$ 2,507,116</u> | <u>\$ 6,579,088</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of pension amounts in aggregate as of June 30, 2016:

| | <u>CalSTRS</u> | <u>CalPERS</u> | <u>Total</u> |
|--------------------------------|----------------|----------------|---------------|
| Deferred outflows of resources | \$ 1,833,975 | \$ 2,190,115 | \$ 4,024,090 |
| Deferred inflows of resources | \$ 2,247,000 | \$ 1,269,000 | \$ 3,516,000 |
| Net pension liability | \$ 22,875,000 | \$ 13,258,000 | \$ 36,133,000 |
| Pension expense | \$ 2,529,986 | \$ 1,172,101 | \$ 3,702,087 |

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. 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 includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Nonspendable restricted net position consists 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 the principal. At June 30, 2017 and 2016, 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 typically applies the expense toward restricted resources, then to unrestricted resources.

Net Assets - Foundation: The Foundation's net assets are classified as follows:

Unrestricted: Unrestricted net assets consist of all resources of the Foundation, which have not been specifically restricted by a donor.

Temporarily restricted: Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the Statements of Activities as net assets released from restriction.

Permanently restricted: Permanently restricted net assets are nonexpendable net assets consisting of endowment and similar type funds in which the donor has stipulated as condition of the gift, that the principal be maintained in perpetuity.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation's endowment assets consist of individual funds established for the purpose to provide financial support to the Foundation in perpetuity. The endowment assets include donor-restricted endowment funds. Net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard prudence prescribed by UPMIFA.

The Foundation has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes investment grade mutual bond funds and equity securities, that is intended to result in a consistent inflation-protected rate of return. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Foundation uses a method based upon the total return on assets to determine the amounts appropriated for expenditures for endowments under which the organization is the income beneficiary in conformity with UPMIFA. To satisfy its long-term rate-of-return objectives, the Foundation seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes equity and debt investments to achieve its long-term return objectives within prudent risk constraints.

State Apportionments: Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to a recalculation will be recorded in the year completed by the state. When known and measurable, these recalculations and corrections are accrued in the year in which FTES are generated.

Classification of Revenue and Expenses: The District has classified its revenues and expenses as either operating or nonoperating revenues and expenses. 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 and expenses 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, and (3) most Federal, State and local grants and contracts and Federal appropriations. All expenses are considered operating expenses except for interest expense on capital related debt.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonoperating revenues and expenses: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Pell grants, gifts and contributions, and other revenue sources described in GASB Cod. Sec. Co5.101, such as State appropriations and investment income.

Contributions: All contributions received by the Foundation are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net position classes. Unconditional promises to give that are silent as to the due date are presumed to be time restricted by the donor until received and are reported as temporarily restricted net assets.

Scholarship Discounts and Allowances: Student tuition and fee revenue are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Change in Net Position. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

Tax Status - Foundation: The Foundation is a nonprofit public benefit corporation exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation has been classified as an organization that is not a private foundation and has been designated as a "publicly supported" organization. Contributions to the Foundation are deductible under Section 170(c)(2). The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Interest and penalties on tax assessments are classified as an expense when incurred. For the years ended June 30, 2017 and 2016, the Foundation did not incur any interest or penalties.

Income tax returns for the Foundation are filed in U.S. federal and state of California jurisdictions. Tax returns remain subject to examination by the U.S. federal jurisdiction for three years after the return is filed and for four years by the California jurisdiction. There are currently no tax years under examination.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments at June 30, 2017, consisted of the following:

| | <u>District</u> | <u>Fiduciary</u> |
|--|----------------------|-------------------|
| Pooled Funds: | | |
| Cash in County Treasury | \$ 27,008,713 | \$ 407,307 |
| Deposits: | | |
| Cash on hand and in banks | <u>701,963</u> | <u>66,851</u> |
| Total cash and cash equivalents | <u>27,710,676</u> | <u>474,158</u> |
| Less: restricted cash and cash equivalents | | |
| Cash in County Treasury | <u>9,384,413</u> | <u>-</u> |
| Net cash and cash equivalents | <u>\$ 18,326,263</u> | <u>\$ 474,158</u> |
| Investments | <u>\$ 1,093,678</u> | <u>\$ -</u> |

Foundation cash and cash equivalents at June 30, 2017, totaled \$4,676,033.

Cash, cash equivalents and investments at June 30, 2016, consisted of the following:

| | <u>District</u> | <u>Fiduciary</u> |
|--|----------------------|-------------------|
| Pooled Funds: | | |
| Cash in County Treasury | \$ 31,623,012 | \$ 511,753 |
| Deposits: | | |
| Cash on hand and in banks | <u>611,480</u> | <u>39,504</u> |
| Total cash and cash equivalents | <u>32,234,492</u> | <u>551,257</u> |
| Less: restricted cash and cash equivalents | | |
| Cash in County Treasury | <u>14,729,754</u> | <u>-</u> |
| Net cash and cash equivalents | <u>\$ 17,504,738</u> | <u>\$ 551,257</u> |
| Investments | <u>\$ 1,000,000</u> | <u>\$ -</u> |

Foundation cash and cash equivalents at June 30, 2016, totaled \$4,289,485.

Cash in County Treasury: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. Those pooled funds are carried at fair value, which approximates cost.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and June 30, 2016

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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.

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 and June 30, 2016.

Custodial Credit Risk: 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 financial institutions is entirely insured or collateralized.

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 accounts, including fiduciary accounts, were \$768,814, and the bank balances were \$776,017. The total uninsured bank balances at June 30, 2017 were \$424,357. At June 30, 2016, the carrying amount of the District's accounts, including fiduciary accounts, were \$650,984, and the bank balances were \$653,983. The total uninsured bank balances at June 30, 2016 were \$326,112.

At June 30, 2017, the bank balance of the Foundation's cash in banks and with brokers was \$4,915,727 of which \$2,676,950 was uninsured. At June 30, 2016, the bank balance of the Foundation's cash in banks and with brokers was \$4,353,763 of which \$2,114,764 was uninsured.

Interest Rate Risk: The District and Foundation's investment policies do not limit cash and investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates. At June 30, 2017 and 2016, the District and Foundation had no significant interest rate risk related to cash and investments held.

Concentration of Credit Risk: The District and Foundation do not place limits on the amount they may invest in any one issuer. At June 30, 2017 and 2016, the District and Foundation had no concentration of credit risk.

District investments at June 30, 2017 consisted of the following:

| | |
|--------------|---------------------|
| Mutual funds | <u>\$ 1,093,678</u> |
|--------------|---------------------|

District investments at June 30, 2016 consisted of the following:

| | |
|--------------|---------------------|
| Mutual funds | <u>\$ 1,000,000</u> |
|--------------|---------------------|

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Foundation Investments: Foundation investments at June 30, consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Fixed income | \$ 1,618,877 | \$ 1,216,233 |
| Equity securities | 7,345,529 | 5,757,064 |
| Mutual funds | 123,397 | 116,645 |
| Investment in Foundation for California Community Colleges Scholarship Endowment (FCCC/Osher) | <u>329,323</u> | <u>304,821</u> |
| Total | <u>\$ 9,417,126</u> | <u>\$ 7,394,763</u> |

Foundation investment income consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|---------------------|--------------------|
| Interest and dividend income | \$ 212,243 | \$ 171,623 |
| Realized gain on investments | 285,235 | 300,592 |
| Unrealized gain (loss) on investments | <u>559,952</u> | <u>(551,822)</u> |
| Total | <u>\$ 1,057,430</u> | <u>\$ (79,607)</u> |

NOTE 3 - FAIR VALUE MEASUREMENTS

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.

The District's investments consist of mutual funds classified as Level 1 of the fair value hierarchy because they are valued at closing prices from securities exchanges.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

The Foundation is required or permitted to record the following assets at fair value on a recurring basis:

| <u>Description</u> | <u>June 30, 2017</u> | | | |
|-----------------------------|----------------------|---------------------|----------------|----------------|
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investment securities: | | | | |
| Fixed income | 1,618,877 | 1,618,877 | - | - |
| Equity securities | 7,345,529 | 7,345,529 | - | - |
| Mutual funds | 123,397 | 123,397 | - | - |
| Investment in FCCC/Osher* | <u>329,323</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total investment securities | <u>\$ 9,417,126</u> | <u>\$ 9,087,803</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | | |
| <u>Description</u> | <u>June 30, 2016</u> | | | |
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investment securities: | | | | |
| Fixed income | 1,216,233 | 1,216,233 | - | - |
| Equity securities | 5,757,064 | 5,757,064 | - | - |
| Mutual funds | 116,645 | 116,645 | - | - |
| Investment in FCCC/Osher* | <u>304,821</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total investment securities | <u>\$ 7,394,763</u> | <u>\$ 7,089,942</u> | <u>\$ -</u> | <u>\$ -</u> |

*Investments measured at fair value using net asset value ("NAVs") per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the hierarchy tables for such investments are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

The Foundation used the following methods and significant assumptions to estimate fair value:

The fair value of the investments held by FCCC was based upon the net asset values ("NAVs") of the assets at June 30, 2017 and 2016. The fair value of the funds held by FCCC is based upon the Foundation's proportionate share of the FCCC/Osher pooled investment portfolio. Foundation management reviews the valuations and returns in comparison to industry benchmarks and other information provided by FCCC, but there is currently no visibility provided by FCCC to the specific listing of underlying investment holdings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 4 - RECEIVABLES

District receivables at June 30, are summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|----------------------------|----------------------------|
| Federal | \$ 1,234,185 | \$ 918,558 |
| State | 1,010,479 | 1,149,286 |
| Local and other | <u>2,466,257</u> | <u>1,826,291</u> |
| | 4,710,921 | 3,894,135 |
| Less allowance for doubtful accounts | <u>(297,899)</u> | <u>(307,343)</u> |
| | <u><u>\$ 4,413,022</u></u> | <u><u>\$ 3,586,792</u></u> |

NOTE 5 - CAPITAL ASSETS

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

| | Balance July 1, <u>2016</u> | Additions and <u>Transfers</u> | Deductions and <u>Transfers</u> | Balance June 30, <u>2017</u> |
|--------------------------------|-----------------------------------|--------------------------------------|---------------------------------------|------------------------------------|
| Non-depreciable: | | | | |
| Land | \$ 590,992 | \$ - | \$ - | \$ 590,992 |
| Construction in progress | 29,802,703 | 3,342,347 | (32,963,298) | 181,752 |
| Depreciable: | | | | |
| Buildings and improvements | 181,111,048 | 32,177,412 | - | 213,288,460 |
| Furniture and equipment | <u>15,534,395</u> | <u>4,896,497</u> | <u>-</u> | <u>20,430,892</u> |
| Total | <u>227,039,138</u> | <u>40,416,256</u> | <u>(32,963,298)</u> | <u>234,492,096</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 54,429,171 | 6,026,915 | - | 60,456,086 |
| Furniture and equipment | <u>9,298,965</u> | <u>1,723,010</u> | <u>-</u> | <u>11,021,975</u> |
| Total | <u>63,728,136</u> | <u>7,749,925</u> | <u>-</u> | <u>71,478,061</u> |
| Capital assets, net | <u><u>\$ 163,311,002</u></u> | <u><u>\$ 32,666,331</u></u> | <u><u>\$ (32,963,298)</u></u> | <u><u>\$ 163,014,035</u></u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 5 - CAPITAL ASSETS (Continued)

Capital asset activity of the District consists of the following at June 30, 2016:

| | Balance July 1, <u>2015</u> | Additions and <u>Transfers</u> | Deductions and <u>Transfers</u> | Balance June 30, <u>2016</u> |
|--------------------------------|-----------------------------------|--------------------------------------|---------------------------------------|------------------------------------|
| Non-depreciable: | | | | |
| Land | \$ 590,992 | \$ - | \$ - | \$ 590,992 |
| Construction in progress | 19,538,235 | 15,272,242 | (5,007,774) | 29,802,703 |
| Depreciable: | | | | |
| Buildings and improvements | 177,958,900 | 4,529,219 | (1,377,071) | 181,111,048 |
| Furniture and equipment | <u>18,236,174</u> | <u>647,992</u> | <u>(3,349,771)</u> | <u>15,534,395</u> |
| Total | <u>216,324,301</u> | <u>20,449,453</u> | <u>(9,734,616)</u> | <u>227,039,138</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 49,619,649 | 5,709,297 | (899,775) | 54,429,171 |
| Furniture and equipment | <u>11,438,525</u> | <u>1,210,211</u> | <u>(3,349,771)</u> | <u>9,298,965</u> |
| Total | <u>61,058,174</u> | <u>6,919,508</u> | <u>(4,249,546)</u> | <u>63,728,136</u> |
| Capital assets, net | <u>\$ 155,266,127</u> | <u>\$ 13,529,945</u> | <u>\$ (5,485,070)</u> | <u>\$ 163,311,002</u> |

NOTE 6 - UNEARNED REVENUE

Unearned revenue for the District at June 30, consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| Unearned tuition and student fees | \$ 781,964 | \$ 1,229,679 |
| Unearned grant revenue and other | <u>5,017,754</u> | <u>4,278,317</u> |
| Total unearned revenue | <u>\$ 5,799,718</u> | <u>\$ 5,507,996</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES

A schedule of changes in long-term debt for the year ended June 30, 2017 is as follows:

| | Balance July 1, 2016 | Additions | Deductions | Balance June 30, 2017 | Amounts Due Within One Year |
|-------------------------------------|-------------------------|----------------------|---------------------|-----------------------------|-----------------------------------|
| General Obligation Bonds | \$ 148,816,666 | \$ - | \$ 2,625,000 | \$ 146,191,666 | \$ 3,855,000 |
| Premium on General Obligation Bonds | 2,612,736 | - | 41,448 | 2,571,288 | 42,885 |
| Accreted interest | 14,076,435 | 5,590,502 | - | 19,666,937 | - |
| Net pension liability | 36,133,000 | 9,867,000 | - | 46,000,000 | - |
| Other postemployment benefits | (2,443,603) | 183,657 | 217,377 | (2,477,323) | - |
| Early retirement incentive | 222,662 | - | 49,133 | 173,529 | - |
| | <u>\$ 199,417,896</u> | <u>\$ 15,641,159</u> | <u>\$ 2,932,958</u> | <u>\$ 212,126,097</u> | <u>\$ 3,897,885</u> |

A schedule of changes in long-term debt for the year ended June 30, 2016 is as follows:

| | Balance July 1, 2015 as restated | Additions | Deductions | Balance June 30, 2016 | Amounts Due Within One Year |
|-------------------------------------|--|-----------------------|----------------------|-----------------------------|-----------------------------------|
| General Obligation Bonds | \$ 121,965,275 | \$ 90,245,296 | \$ 63,393,905 | \$ 148,816,666 | \$ 2,625,000 |
| Premium on General Obligation Bonds | 3,512,900 | 2,473,212 | 3,373,376 | 2,612,736 | 41,448 |
| Accreted interest | 27,364,116 | 6,589,223 | 19,876,904 | 14,076,435 | - |
| Net pension liability | 28,533,000 | 7,600,000 | - | 36,133,000 | - |
| Other postemployment benefits | 1,514,948 | 677,761 | 4,636,312 | (2,443,603) | - |
| Early retirement incentive | 272,641 | - | 49,979 | 222,662 | - |
| | <u>\$ 183,162,880</u> | <u>\$ 107,585,492</u> | <u>\$ 91,330,476</u> | <u>\$ 199,417,896</u> | <u>\$ 2,666,448</u> |

General Obligation Bonds

2005 General Obligation Refunding Bonds

During March 2005, the District issued 2005 General Obligation Refunding Bonds in the amount of \$23,500,000 in current interest bonds and \$5,562,042 in capital appreciation bonds. The current interest bonds were partially refunded in 2014 and the remaining amount of current interest bonds were refunded in 2016. The capital appreciation bonds matured on August 1, 2014.

2002 General Obligation Bonds, Series B

During June 2006, the District issued the 2002 General Obligation Bonds, Series B in the amount of \$32,815,000 of current interest bonds and \$2,180,518 of capital appreciation bonds. The current interest bonds were partially refunded in 2014 and the remaining current interest bonds were refunded in 2016. The capital appreciation bonds matured on June 1, 2016.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES (Continued)

2002 General Obligation Bonds, Series C

During June 2009, the District issued the 2002 General Obligation Bonds, Series C in the amount of \$12,597,888 of capital appreciation bonds. The bonds mature beginning on August 1, 2023 through August 1, 2033, with interest yields ranging from 6.13 to 11.50 percent. Interest is compounded semiannually each year and is payable only at maturity.

The annual payments required to amortize the Capital Appreciation 2002 General Obligation Bonds, Series C outstanding as of June 30, 2017, are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|----------------------|----------------------|
| 2023-2027 | \$ 1,848,853 | \$ 8,927,520 | \$ 10,776,373 |
| 2028-2032 | 6,342,682 | 14,370,155 | 20,712,837 |
| 2033-2034 | <u>4,406,353</u> | <u>5,684,356</u> | <u>10,090,709</u> |
| | <u>\$ 12,597,888</u> | <u>\$ 28,982,031</u> | <u>\$ 41,579,919</u> |

2002 General Obligation Bonds, Series D

During September 2009, the District issued the 2002 General Obligation Bonds, Series D in the amount of \$35,106,469 of capital appreciation bonds and \$13,298,610 of convertible capital appreciation bonds. The capital appreciation bonds were partially refunded in 2014 and in 2016 and the remaining bonds mature August 1, 2049, with an interest accretion rate of 11.50 percent. Interest is compounded semiannually and payable only at maturity. The convertible capital appreciation bonds mature through August 1, 2034 and convert to current interest bonds on August 1, 2022. Prior to the date of conversion, the convertible capital appreciation bonds accrete interest, compounded semiannually. Upon conversion, interest is payable semiannually and based upon the conversion value at an interest rate of 7.00 percent.

The annual payments required to amortize the 2002 General Obligation Bonds, Series D outstanding as of June 30, 2017, are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|----------------------|----------------------|
| 2023-2027 | \$ - | \$ 10,158,750 | \$ 10,158,750 |
| 2028-2032 | 2,084,480 | 12,544,756 | 14,629,236 |
| 2033-2037 | 11,214,130 | 21,615,535 | 32,829,665 |
| 2038-2042 | - | - | - |
| 2043-2047 | - | - | - |
| 2048-2050 | <u>164,873</u> | <u>14,085,127</u> | <u>14,250,000</u> |
| | <u>\$ 13,463,483</u> | <u>\$ 58,404,168</u> | <u>\$ 71,867,651</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES (Continued)

2014 General Obligation Bonds, Series A

During January 2014, the District issued \$24,265,000 of federally tax-exempt 2014 General Obligation Refunding Bonds, Series A, with an effective interest rate of 3.45%. Proceeds were used to advance refund a portion of the outstanding 2005 General Obligation Refunding Bonds and portions of the 2002 General Obligation Bonds Series B and Series D and to pay the costs of issuing the 2014 General Obligation Refunding Bonds, Series A. The bonds mature August 1, 2014 through August 1, 2030. At June 30, 2017, \$20,116,556 of bonds outstanding are considered defeased.

The following is a schedule of the future payments for the 2014 General Obligation Refunding Bonds, Series A as of June 30, 2017:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|---------------------|----------------------|
| 2018 | \$ 720,000 | \$ 806,918 | \$ 1,526,918 |
| 2019 | 1,165,000 | 776,059 | 1,941,059 |
| 2020 | 1,290,000 | 734,596 | 2,024,596 |
| 2021 | 1,390,000 | 689,600 | 2,079,600 |
| 2022 | 1,550,000 | 640,294 | 2,190,294 |
| 2023-2027 | 13,805,000 | 1,926,082 | 15,731,082 |
| 2028-2031 | <u>3,590,000</u> | <u>285,579</u> | <u>3,875,579</u> |
| | <u>\$ 23,510,000</u> | <u>\$ 5,859,128</u> | <u>\$ 29,369,128</u> |

2014 General Obligation Bonds, Series B

During January 2014, the District issued \$10,220,000 of 2014 General Obligation Refunding Bonds, Series B, with an effective interest rate of 2.55%. Proceeds were used to advance refund a portion of the outstanding 2005 General Obligation Refunding Bonds and to pay the costs of issuing the 2014 General Obligation Refunding Bonds, Series B. The bonds mature August 1, 2014 through August 1, 2019. At June 30, 2017, \$7,245,000 of bonds outstanding are considered defeased.

The following is a schedule of the future payments for the 2014 General Obligation Refunding Bonds, Series B as of June 30, 2017:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|-------------------|---------------------|
| 2018 | \$ 2,420,000 | \$ 147,709 | \$ 2,567,709 |
| 2019 | 2,605,000 | 84,851 | 2,689,851 |
| 2020 | <u>1,350,000</u> | <u>17,213</u> | <u>1,367,213</u> |
| | <u>\$ 6,375,000</u> | <u>\$ 249,773</u> | <u>\$ 6,624,773</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES (Continued)

2015 General Obligation Bonds, Series A

During December 2015, the District issued federally tax-exempt 2015 General Obligation Refunding Bonds, Series A, in the amount of \$22,675,000 in current interest bonds and \$64,890,295 in capital appreciation bonds. Proceeds were used to currently refund all of the outstanding 2005 General Obligation Refunding Bonds and advance refund portions of the 2002 General Obligation Bonds Series B and Series D and to pay the costs of issuing the 2015 General Obligation Refunding Bonds, Series A. The current interest bonds mature from August 1, 2020 through August 1, 2031 with interest rates ranging from 3.00 to 5.00 percent. The capital appreciation bonds mature from August 1, 2035 through August 1, 2049 with interest accretion rates ranging from 4.12 to 4.52 percent. Interest on capital appreciation bonds is compounded semiannually each year and is payable only at maturity. At June 30, 2017, \$56,480,041 of bonds outstanding are considered defeased.

Calculation of Difference in Cash Flow Requirements and Economic Gain

Cash Flow Difference

| | |
|-----------------------------|-----------------------|
| Old debt service cash flows | \$ 417,181,248 |
| New debt service cash flows | <u>243,388,917</u> |
| | <u>\$ 173,792,331</u> |

Economic Gain

The economic gain or difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate is \$58,245,223.

There was no accrued interest or sinking fund resources related to the new debt proceeds.

The annual payments required to repay the the 2015 General Obligation Refunding Bonds, Series A as of June 30, 2017, are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|-----------------------|-----------------------|
| 2018 | \$ - | \$ 896,000 | \$ 896,000 |
| 2019 | - | 896,000 | 896,000 |
| 2020 | - | 896,000 | 896,000 |
| 2021 | 2,610,000 | 856,850 | 3,466,850 |
| 2022 | 2,800,000 | 747,700 | 3,547,700 |
| 2023-2027 | 3,065,000 | 2,698,875 | 5,763,875 |
| 2028-2031 | 14,200,000 | 1,364,425 | 15,564,425 |
| 2033-2037 | 8,504,044 | 10,930,956 | 19,435,000 |
| 2038-2042 | 21,571,541 | 38,143,459 | 59,715,000 |
| 2043-2047 | 22,511,792 | 57,328,208 | 79,840,000 |
| 2048-2050 | <u>12,302,918</u> | <u>40,072,082</u> | <u>52,375,000</u> |
| | <u>\$ 87,565,295</u> | <u>\$ 154,830,555</u> | <u>\$ 242,395,850</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES (Continued)

2015 General Obligation Bonds, Series B

During December 2015, the District issued taxable 2015 General Obligation Refunding Bonds, Series B, in the amount of \$2,680,000 in current interest bonds. Proceeds were used to advance refund portions of the 2002 General Obligation Bonds Series B and to pay the costs of issuing the 2015 General Obligation Refunding Bonds, Series B. The bonds mature from August 1, 2017 through August 1, 2027 with interest rates ranging from 1.35 to 3.75 percent. At June 30, 2017, \$2,600,000 of bonds outstanding are considered defeased.

Calculation of Difference in Cash Flow Requirements and Economic Gain

Cash Flow Difference

| | |
|-----------------------------|---------------------|
| Old debt service cash flows | \$ 4,615,000 |
| New debt service cash flows | <u>3,550,914</u> |
| | <u>\$ 1,064,086</u> |

Economic Gain

The economic gain or difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate is \$272,091.

There was no accrued interest or sinking fund resources related to the new debt proceeds.

The annual payments required to repay the the 2015 General Obligation Refunding Bonds, Series B as of June 30, 2017, are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|-------------------|---------------------|
| 2018 | \$ 715,000 | \$ 78,514 | \$ 793,514 |
| 2019 | - | 73,688 | 73,688 |
| 2020 | - | 73,688 | 73,688 |
| 2021 | - | 73,688 | 73,688 |
| 2022 | - | 73,688 | 73,688 |
| 2023-2027 | - | 368,437 | 368,437 |
| 2028 | <u>1,965,000</u> | <u>36,844</u> | <u>2,001,844</u> |
| | <u>\$ 2,680,000</u> | <u>\$ 778,547</u> | <u>\$ 3,458,547</u> |

(Continued)

NOTE 7 - LONG-TERM LIABILITIES (Continued)

Early Retirement Incentive

During April 2009, the Board of Trustees adopted a resolution for the implementation of an Early Retirement Incentive for full-time faculty. A total of seven full-time faculty are participating. The District will pay benefits totaling \$600,551. Payments of \$49,133 and \$49,979 were made during the 2016-17 and 2015-16 fiscal years, respectively. The total remaining liability has been reflected in these financial statements. The net savings for the life of the plan is estimated at \$945,000.

NOTE 8 - PROPERTY TAXES

All property taxes are levied and collected by the Tax Assessors of the Counties of Monterey and San Benito and paid upon collection to the various taxing entities including the District. Secured taxes are levied on July 1 and are due in two installments on November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date for secured and unsecured property taxes is March 1 of the preceding fiscal year.

NOTE 9 - 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.

(Continued)

NOTE 9 - 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.

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost 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 and 9.20 percent of applicable member earnings for fiscal years 2016-17 and 2015-16, respectively. 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 and 8.56 percent of applicable member earnings for fiscal years 2016-17 and 2015-16, respectively.

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)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 9 - 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 and 10.73 percent of applicable member earnings for fiscal years 2016-17 and 2015-16, respectively.

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:

| <u>Effective Date</u> | <u>Prior Rate</u> | <u>Increase</u> | <u>Total</u> |
|-----------------------|-------------------|--|--------------|
| 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 \$2,220,709 and \$1,833,975 to the plan for the fiscal years ended June 30, 2017 and 2016, respectively.

State – 8.828 and 7.391 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year for fiscal years 2016-17 and 2015-16, respectively.

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 2015-16 and beyond are summarized in the table below.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 9 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

As shown in the subsequent table, the state rate will increase from 2.874 percent in 2015-16 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.

| <u>Effective Date</u> | <u>Base Rate</u> | <u>AB 1469 Increase For 1990 Benefit Structure</u> | <u>SBMA Funding</u> | <u>Total State Appropriation to DB Program</u> |
|--------------------------------|------------------|--|---------------------|--|
| July 01, 2015 | 2.017% | 2.874% | 2.50% | 7.391% |
| 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% | 4.517%(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 by 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 and 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The 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 were as follows:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| District's proportionate share of the net pension liability | \$ 27,739,000 | \$ 22,875,000 |
| State's proportionate share of the net pension liability associated with the District | <u>15,793,000</u> | <u>12,098,000</u> |
| Total | <u>\$ 43,532,000</u> | <u>\$ 34,973,000</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 9 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

For fiscal year 2016-17, 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. For fiscal year 2015-16, the net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. 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 0.034 percent, which was consistent with its proportion measured as of June 30, 2016. At June 30, 2016, the District's proportion was 0.034 percent, which was an increase of .003 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$4,071,972 and revenue of \$1,350,997 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 | \$ - | \$ 677,000 |
| Changes of assumptions | - | - |
| Net differences between projected and actual earnings on investments | 2,205,000 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 202,000 | - |
| Contributions made subsequent to measurement date | <u>2,220,709</u> | <u>-</u> |
| Total | <u>\$ 4,627,709</u> | <u>\$ 677,000</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 9 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$2,529,986 and revenue of \$1,129,570 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ - | \$ 382,000 |
| Changes of assumptions | - | - |
| Net differences between projected and actual earnings on investments | - | 1,865,000 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | - |
| Contributions made subsequent to measurement date | <u>1,833,975</u> | <u>-</u> |
| Total | <u>\$ 1,833,975</u> | <u>\$ 2,247,000</u> |

\$2,220,709 reported as deferred outflows of resources as of June 30, 2017 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 | \$ (7,866) |
| 2019 | \$ (7,866) |
| 2020 | \$ 1,123,884 |
| 2021 | \$ 737,384 |
| 2022 | \$ (89,866) |
| 2023 | \$ (25,670) |

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 June 30, 2016. 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)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 9 - 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 total pension liability for the 2015-16 STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015 and 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|-----------------------------------|---|
| Valuation Dates | June 30, 2015 and 2014 |
| 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 for valuation as of June 30, 2015:

| <u>Assumed Asset Asset Class</u> | <u>Long-Term* Expected Real Allocation</u> | <u>Rate of Return</u> |
|---|--|-----------------------|
| 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)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 9 - NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

For the valuation as of June 30, 2014, the following best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

| <u>Assumed Asset Asset Class</u> | <u>Long-Term** Expected Real Allocation</u> | <u>Rate of Return</u> |
|--------------------------------------|---|-----------------------|
| Global Equity | 47% | 4.50% |
| Private Equity | 12% | 6.20 |
| Real Estate | 15% | 4.35 |
| Inflation Sensitive | 5% | 3.20 |
| Fixed Income | 20% | 0.20 |
| Cash / Liquidity | 1% | 0.00 |

** 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability recorded as of June 30, 2017 and 2016 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 (7.6 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 at June 30, 2017 and 2016 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 <u>(6.60%)</u> | Current Discount Rate <u>(7.60%)</u> | 1% Increase <u>(8.60%)</u> |
|---|----------------------------------|--|----------------------------------|
| District's proportionate share of the net pension liability - 2017 | <u>\$ 39,922,000</u> | <u>\$ 27,739,000</u> | <u>\$ 17,620,000</u> |
| District's proportionate share of the net pension liability - 2016 | <u>\$ 34,539,000</u> | <u>\$ 22,875,000</u> | <u>\$ 13,181,000</u> |

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

(Continued)

NOTE 10 - 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-2015.pdf>
- <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.

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 and 2016 were as follows:

Members – The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal years 2016-17 and 2015-16.

Employers – The employer contribution rates were 13.888 and 11.847 percent of applicable member earnings for fiscal years 2016-17 and 2015-16, respectively.

The District contributed \$1,677,948 and \$1,314,115 to the plan for the fiscal years ended June 30, 2017 and 2016, respectively.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 10 - NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

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 \$18,261,000 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. At June 30, 2016, the District reported a liability of \$13,258,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. 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, 2017, the District’s proportion was 0.092 percent, which was an increase of 0.002 percent from its proportion measured as of June 30, 2016. At June 30, 2016, the District’s proportion was 0.090 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$2,507,116. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 785,000 | \$ - |
| Changes of assumptions | - | 549,000 |
| Net differences between projected and actual earnings on investments | 2,833,000 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 348,000 | - |
| Contributions made subsequent to measurement date | <u>1,677,948</u> | <u>-</u> |
| Total | <u>\$ 5,643,948</u> | <u>\$ 549,000</u> |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 10 - NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$1,172,101. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 758,000 | \$ - |
| Changes of assumptions | - | 815,000 |
| Net differences between projected and actual earnings on investments | - | 454,000 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 118,000 | - |
| Contributions made subsequent to measurement date | <u>1,314,115</u> | <u>-</u> |
| Total | <u>\$ 2,190,115</u> | <u>\$ 1,269,000</u> |

\$1,677,948 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 | \$ 634,383 |
| 2019 | \$ 575,383 |
| 2020 | \$ 1,467,634 |
| 2021 | \$ 739,600 |

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 June 30, 2015. 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)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 10 - NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (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 total pension liability for the 2015-16 STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015 and as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|-----------------------------------|--|
| Valuation Dates | June 30, 2015 and June 30, 2014 |
| Experience Study | July 1, 2006, through June 30, 2010 |
| 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 and 2014 valuations 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 for the valuation date June 30, 2015. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Long-Term* Assumed Asset Asset Class | Expected Real Allocation | 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

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and June 30, 2016

NOTE 10 - NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

The table below reflects long-term expected real rate of return by asset class for the valuation date June 30, 2014. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| <u>Long-Term*</u> <u>Assumed Asset</u> <u>Asset Class</u> | <u>Expected Real</u> <u>Allocation</u> | <u>Rate of Return</u> |
|---|---|-----------------------|
| Global Equity | 51% | 5.25% |
| Global Fixed Income | 19% | 0.99% |
| Inflation Insensitive | 6% | 0.45% |
| Private Equity | 10% | 6.83% |
| Real Estate | 10% | 4.50% |
| Infrastructure & Forestland | 2% | 4.50% |
| Liquidity | 2% | (0.55)% |

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent in fiscal years 2016-17 and 2015-16. 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.

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.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 10 - NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

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 and 2016 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 <u>(6.65%)</u> | Current Discount Rate <u>(7.65%)</u> | 1% Increase <u>(8.65%)</u> |
|---|----------------------------------|--|----------------------------------|
| District’s proportionate share of the net pension liability - 2017 | <u>\$ 27,245,000</u> | <u>\$ 18,261,000</u> | <u>\$ 10,780,000</u> |
| District’s proportionate share of the net pension liability - 2016 | <u>\$ 21,578,000</u> | <u>\$ 13,258,000</u> | <u>\$ 6,339,000</u> |

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 11 - OTHER POSTEMPLOYMENT BENEFITS

The District established an Other Postemployment Benefits Plan which is a single-employer defined benefit healthcare plan. During fiscal year 2016, the District joined the California Employer’s Retirement Benefit Trust Program (CERBT) to pre-fund OPEB liabilities. The CERBT is an agent multiple employer plan consisting of an aggregation of single-employer plans, with pooled administrative and investment functions that are administered by CalPERS. A copy of the aggregate CERBT annual financial report may be obtained at www.calpers.ca.gov. CERBT serves as an irrevocable trust, ensure that funds contributed into the Trust are dedicated to service the needs of member districts, and their employees and retirees.

The Plan provides medical, dental, and vision insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements through a single-employer, pay-as-you-go plan, which does not issue separate financial statements. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. The eligibility requirements for employees who are members of the California School Employees Association or International Union of Operating Engineers Stationary Local Number 39 are a minimum age of 60 and have a minimum of ten years of continuous service with the District. These employees receive one year of benefits for each two years with the District not to exceed five years. Additional age and service criteria may be required.

The eligibility requirement for members of the Hartnell College Faculty Association is a minimum age of 58 with ten years of full-time service. These employees receive one year of benefits for each two years with the District not to exceed seven years. Additional age and service criteria may be required.

The eligibility requirements for managers, supervisors, and confidential employees are: to be of eligible age to retire from STRS or PERS, whichever is appropriate and have five years of full-time employment with the District. Benefits will be granted for a maximum of ten years. The District paid health benefits for all retirees, except medical coverage for members of the Hartnell College Faculty Association terminates at age 65. Retiree members of the Hartnell College Faculty Association receive lifetime District paid medical coverage for themselves and their dependents.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The District provides these benefits on a pay-as-you-go basis. During the year ended June 30, 2017, the District made no discretionary contribution into CERBT in comparison to June 30, 2016 where a contribution of \$4,375,948 was made to establish participation in the Plan. The CERBT agent plan consists of an aggregation of single-employer plans, under the terms of which separate accounts will be maintained for each employer. So the District's asset will provide benefits only under the District's plan. Separate financial statements are not prepared for the District's Single Employer Plan.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost, the amount actually contributed, and changes in the District's net OPEB obligation:

| | <u>2017</u> | <u>2016</u> |
|--|------------------------------|------------------------------|
| Annual required contribution | \$ 349,188 | \$ 683,828 |
| Interest (payments) on net OPEB obligation | (158,834) | 68,173 |
| Adjustment to annual required contribution | <u>(6,697)</u> | <u>(74,240)</u> |
| Annual OPEB cost | 183,657 | 677,761 |
| Contributions made | <u>(217,377)</u> | <u>(4,636,312)</u> |
| Change in net OPEB obligation | (33,720) | (3,958,551) |
| Net OPEB (asset) liability - beginning of year | <u>(2,443,603)</u> | <u>1,514,948</u> |
| Net OPEB (asset) - end of year | <u><u>\$ (2,477,323)</u></u> | <u><u>\$ (2,443,603)</u></u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the year ended June 30, 2017 and preceding two years were as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|---|----------------------------|
| June 30, 2015 | \$ 679,240 | 45.63% | \$ 1,514,948 |
| June 30, 2016 | \$ 677,761 | 684.06% | \$ (2,443,603) |
| June 30, 2017 | \$ 183,657 | 118.36% | \$ (2,477,323) |

As of November 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$4.1 million, and the actuarial value of assets was \$4.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of (\$0.4) million. As of the last actuarial, the covered payroll (annual payroll of active employees covered by the Plan) was \$30.5 million, and the ratio of the UAAL to the covered payroll was (1.6) percent.

(Continued)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, included as Required Supplementary Information following this section, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the November 1, 2016 actuarial valuation for both the Retiree Health Plan and the Retiree Health Plan - Faculty Post-65, the entry age normal actuarial cost method was used to value the liability. The actuarial assumptions included a 6.5 percent investment rate of return which is based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. and an annual healthcare cost trend rate of 4.0 percent. The UAAL is being amortized as a level percent, closed 30 year period for the initial UAAL and an open 23 year period for any residual UAAL. The remaining equivalent amortization period at June 30, 2017, for the plans was approximately 22 years.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Contingent Liabilities: The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received Federal and State funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect.

Construction Commitments: As of June 30, 2017, there were no outstanding commitments on construction contracts. As of June 30, 2016, the District had approximately \$1.5 million in outstanding commitments on construction contracts.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2017 and June 30, 2016

NOTE 13 - JOINT POWERS AGREEMENTS

Hartnell Community College District participates in public entity risk pool joint power agreements (JPAs), with Monterey County Schools Insurance Group (MCSIG), Bay Area Community College Districts (BACCD), School Association for Excess Risk (SAFER), the Statewide Association of Community Colleges (SWACC), Protected Insurance Program for Schools (PIPS), and the South Bay Regional Public Safety Training Consortium (SBRPSTC). Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There have been no significant reductions in insurance coverage from coverage in the prior year. The relationship between Hartnell Community College District and the JPAs is such that the JPAs are not component units of Hartnell Community College District for financial reporting purposes.

The JPAs are governed by boards consisting of a representative from each member district. The boards control the operations of the JPAs, including the selection of management and approval of operating budgets, independent of any influence by the member district beyond their representation on the governing board. MCSIG provides employee medical, dental and vision benefits, BACCD provides property and liability insurance, SAFER provides excess property and liability insurance, SWACC provides property and liability insurance, PIPS provides workers' compensation insurance and SBRPSTC provides education and training to public safety students. Hartnell Community College District pays a premium commensurate with the level of coverage requested.

Member districts share surpluses and deficits proportionate to their participation in the JPAs. The JPAs are independently accountable for their fiscal matters and maintain their own accounting records. Budgets are not subject to any approval other than that of the governing board.

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

| | <u>MCSIG</u> <u>June 30, 2016</u> | <u>BACCD</u> <u>June 30, 2016</u> |
|---|--------------------------------------|--------------------------------------|
| Total assets and deferred outflows of resources | \$ 22,996,723 | \$ 8,977,451 |
| Total liabilities and deferred inflows of resources | \$ 9,685,179 | \$ 3,078,934 |
| Net position | \$ 13,311,544 | \$ 5,898,517 |
| Total revenues | \$ 58,411,362 | \$ 4,486,339 |
| Total expenses | \$ 56,005,461 | \$ 4,265,546 |
| Change in net position | \$ 2,405,901 | \$ 220,793 |

| | <u>SWACC</u> <u>June 30, 2016</u> | <u>PIPS</u> <u>June 30, 2016</u> |
|------------------------|--------------------------------------|-------------------------------------|
| Total assets | \$ 53,650,572 | \$ 117,633,714 |
| Total liabilities | \$ 25,243,178 | \$ 104,282,740 |
| Net position | \$ 28,407,394 | \$ 13,350,974 |
| Total revenues | \$ 18,776,551 | \$ 265,667,899 |
| Total expenses | \$ 20,885,850 | \$ 262,755,057 |
| Change in net position | \$ (2,109,299) | \$ 2,912,842 |

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and June 30, 2016

NOTE 13 - JOINT POWERS AGREEMENTS (Continued)

| | SAFER <u>June 30, 2016</u> | SBRPSTC <u>June 30, 2016</u> |
|------------------------|-------------------------------|---------------------------------|
| Total assets | \$ 23,297,652 | \$ 5,079,180 |
| Total liabilities | \$ 21,155,886 | \$ 2,531,400 |
| Net position | \$ 2,141,766 | \$ 2,547,780 |
| Total revenues | \$ 56,004,631 | \$ 12,147,592 |
| Total expenses | \$ 55,390,780 | \$ 11,100,827 |
| Change in net position | \$ 613,851 | \$ 1,046,765 |

NOTE 14 - SUBSEQUENT EVENT

In August 2017, the District issued General Obligation Bonds, Election of 2016, Measure T, Series A in the aggregate principal amount of \$70,000,000. The Series A Bonds were authorized at the election of the registered voters of the District held on November 8, 2016, which authorized the issuance of \$167,000,000 principal amount of general obligation bonds for the purpose of financing the acquisition, construction, upgrading and repairing of college facilities. The Series A Bonds will bear an interest rate ranging from 2.0% to 5.0% and mature through August 1, 2047.

REQUIRED SUPPLEMENTARY INFORMATION

HARTNELL COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
 For the Years Ended June 30, 2017 and 2016

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|--|---|-----------------|--------------------|---|
| June 1, 2009 | \$ - | \$ 4,852,364 | \$ 4,852,364 | 0.0% | \$ 16,251,014 | 29.86% |
| October 1, 2010 | \$ - | \$ 4,922,642 | \$ 4,922,642 | 0.0% | \$ 20,923,926 | 23.53% |
| November 1, 2012 | \$ - | \$ 4,930,939 | \$ 4,930,939 | 0.0% | \$ 20,877,941 | 23.62% |
| November 1, 2014 | \$ - | \$ 5,050,547 | \$ 5,050,547 | 0.0% | \$ 20,341,285 | 24.83% |
| November 1, 2016 | \$ 4,536,040 | \$ 4,057,113 | \$ (478,927) | 111.8% | \$ 30,467,069 | (1.57)% |

Schedule of Employer Contributions

| Fiscal Year Ended | Annual Required Contribution (ARC) | Contributions | Percentage of ARC Contributed |
|-------------------------|--|---------------|-------------------------------------|
| June 30, 2016 | \$ 683,828 | \$ 4,636,312 | 678% |
| June 30, 2017 | \$ 349,188 | \$ 217,377 | 62% |

See independent auditor's report on required supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Years Ended June 30, 2017 and 2016

State Teacher's Retirement Plan
 Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|----------------------|----------------------|----------------------|
| District's proportion of the net pension liability | 0.031% | 0.034% | 0.034% |
| District's proportionate share of the net pension liability | \$ 18,385,000 | \$ 22,875,000 | \$ 27,739,000 |
| State's proportionate share of the net pension liability associated with the District | <u>11,102,000</u> | <u>12,098,000</u> | <u>15,793,000</u> |
| Total net pension liability | <u>\$ 29,487,000</u> | <u>\$ 34,973,000</u> | <u>\$ 43,532,000</u> |
| District's covered payroll | \$ 14,013,000 | \$ 15,770,000 | \$ 17,092,000 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 131.20% | 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 yearend that occurred one year prior.

All years prior to 2015 are not available.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Years Ended June 30, 2017 and 2016

Public Employers Retirement Fund B
 Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|---------------|---------------|---------------|
| District's proportion of the net pension liability | 0.089% | 0.090% | 0.092% |
| District's proportionate share of the net pension liability | \$ 10,148,000 | \$ 13,258,000 | \$ 18,261,000 |
| District's covered payroll | \$ 9,384,000 | \$ 9,958,000 | \$ 11,092,000 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 108.14% | 133.14% | 164.63% |
| 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 yearend that occurred one year prior.

All years prior to 2015 are not available.

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Years Ended June 30, 2017 and 2016

State Teachers' Retirement Plan
Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|---------------|---------------|---------------|
| Contractually required contribution | \$ 1,400,416 | \$ 1,833,975 | \$ 2,220,709 |
| Contributions in relation to the contractually required contribution | \$ 1,400,416 | \$ 1,833,975 | \$ 2,220,709 |
| District's covered payroll | \$ 15,770,000 | \$ 17,092,000 | \$ 17,653,000 |
| Contributions as a percentage of covered payroll | 8.88% | 10.73% | 12.58% |

All years prior to 2015 are not available.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Years Ended June 30, 2017 and 2016

Public Employers Retirement Fund B
Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|--------------|---------------|---------------|
| Contractually required contribution | \$ 1,172,101 | \$ 1,314,115 | \$ 1,677,948 |
| Contributions in relation to the contractually required contribution | \$ 1,172,101 | \$ 1,314,115 | \$ 1,677,948 |
| District's covered payroll | \$ 9,958,000 | \$ 11,092,000 | \$ 12,082,000 |
| Contributions as a percentage of covered payroll | 11.77% | 11.85% | 13.89% |

All years prior to 2015 are not available.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017 and 2016

NOTE 1 - PURPOSE OF SCHEDULE

A - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

B - Schedule of Employer Contributions

The Schedule of Employer Contributions presents the actuarial determined annual required contribution (ARC) and the percentage of that ARC that was contributed by the District into the CERBT irrevocable trust or as benefit payments directly to or on behalf of members.

C - 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.

D - Schedule of the District's Contributions

The Schedule of District 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.

E - Changes of Benefit Terms

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

F - Changes of Assumptions

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

SUPPLEMENTARY INFORMATION

HARTNELL COMMUNITY COLLEGE DISTRICT
ORGANIZATION
June 30, 2017

Hartnell Community College District was established in 1949 and serves communities both Monterey and San Benito counties. The District currently operates one college.

The Governing Board and District Administration for the fiscal year ended June 30, 2017 were composed of the following members:

BOARD OF TRUSTEES

| <u>Members</u> | <u>Office</u> | <u>Term Expires</u> |
|----------------------|-----------------------------------|---------------------|
| Manuel Osorio | President | 2019 |
| Patricia Donahue | Vice President | 2019 |
| Erica Padilla-Chavez | Member | 2017 |
| Aurelio Salazar | Member | 2019 |
| David Gomez Serena | Member | 2019 |
| Candi DePauw | Member | 2017 |
| Ray Montemayor | Member | 2017 |
| Rafael Mendoza | Student Trustee, Hartnell College | 2017 |

DISTRICT ADMINISTRATION

Dr. Willard Clark Lewallen
Superintendent/President

David Phillips
Vice President of Information and Technology Resources

Jackie Cruz
Vice President of Advancement and Development

Dr. Romero Jalomo
Vice President for Student Affairs

Dr. Lori Kildal
Vice President for Academic Affairs

Benjamin Figueroa
Vice President for Administrative Services

Terri Pyer
Associate Vice President for Human Resources

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

| <u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> | <u>Subrecipients</u> |
|---|------------------------------------|---------------------------------|----------------------|
| <u>U.S. Department of Education</u> | | | |
| <i>Direct Programs:</i> | | | |
| Student Financial Aid Cluster: | | | |
| Federal Supplemental Educational Opportunity Program (FSEOG) | 84.007 | \$ 196,627 | \$ - |
| Federal Work Study (FWS) | 84.033 | 169,616 | - |
| Federal Pell Grants (PELL) | 84.063 | 10,811,118 | - |
| Financial Aid Admin Allowance | 84.000 | <u>14,956</u> | <u>-</u> |
| Subtotal Financial Aid Cluster | | <u>11,192,317</u> | <u>-</u> |
| TRIO Cluster- Student Support Services Program | 84.042A | 239,047 | - |
| Migrant Ed - High School Equivalency Program | 84.141A | 472,566 | - |
| Child Care Access Grant | 84.335A | 139,608 | - |
| Title V Programs: | | | |
| HSI STEM Guided Pathways | 84.031C | 431,607 | - |
| Title V - Strengthening the Pipeline to Baccalaureate and Graduate STEM Program (STP) | 84.031C | 349,213 | - |
| Title V - STEM Regional Community College-to-University Success Program (CUSP) | 84.031C | 469,485 | 253,791 |
| <i>Passed through Gavilan Joint Community College District:</i> | | | |
| Streamlined Career Transfer Pathways | 84.031 | <u>186,382</u> | <u>-</u> |
| Subtotal Title V Programs | | <u>1,436,687</u> | <u>253,791</u> |
| <i>Passed through California Community Colleges Chancellor's Office:</i> | | | |
| Perkins IV Programs: | | | |
| Carl D. Perkins Career and Technical Education (CTE) Act CTE - Title I, Part C (Perkins IV) | 84.048A | 274,737 | - |
| Career Technical Education Transitions (CTE Transitions) | 84.048A | <u>43,748</u> | <u>-</u> |
| Subtotal Perkins IV Programs | | <u>318,485</u> | <u>-</u> |
| Total U.S. Department of Education | | <u>13,798,710</u> | <u>253,791</u> |
| <u>U.S. Department of Health and Human Services</u> | | | |
| Foster Care Programs: | | | |
| <i>Passed through California Community Colleges Chancellor's Office:</i> | | | |
| Foster and Kinship Care Education Program- Title IV-E | 93.658 | 93,413 | - |
| <i>Passed through County of Monterey, Department of Social and Employee Services:</i> | | | |
| Foster Care- Title IV-E (DSES) | 93.658 | <u>715,846</u> | <u>-</u> |
| Subtotal Foster Care Programs | | <u>809,259</u> | <u>-</u> |
| <i>Passed through University of California, Santa Cruz:</i> | | | |
| National Institute of Health | 93.859 | 18,124 | - |
| <i>Passed through California Community College Chancellor's Office:</i> | | | |
| Temporary Assistance for Needy Families (TANF) Cluster | 93.558 | 45,107 | - |
| <i>Passed through Yosemite Community College District:</i> | | | |
| Child Development Training Consortium - CCDF Cluster | 93.575 | <u>5,424</u> | <u>-</u> |
| Total U.S. Department of Health and Human Services | | <u>877,914</u> | <u>-</u> |

(Continued)

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

| <u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> | <u>Subrecipients</u> |
|--|------------------------------------|---------------------------------|----------------------|
| U.S. Department of Agriculture | | | |
| <i>Passed through the California Department of Education:</i> | | | |
| Forest Service Schools and Roads Cluster | 10.665 | \$ 4,536 | \$ - |
| <i>Passed through the University Corporation at CSU Monterey Bay:</i> | | | |
| USDA-CSUMB | 10.326 | 11,388 | - |
| <i>Passed through University of California, Santa Cruz:</i> | | | |
| Higher Education Challenge (USDA-HEC) | 10.217 | 22,992 | - |
| <i>Passed through the University Corporation at CSU Monterey Bay:</i> | | | |
| NIFA-CSUMB | 10.217 | <u>1,428</u> | <u>-</u> |
| Subtotal Higher Education - Institution Challenge Grants Programs | | <u>24,420</u> | <u>-</u> |
| Total Department of Agriculture | | <u>40,344</u> | <u>-</u> |
| <u>Department of National Aeronautics & Space Administration</u> | | | |
| <i>Direct Programs:</i> | | | |
| Minority University Research and Education Project Aerospace Academy (NASA MAA) | 43.008 | <u>156,776</u> | <u>-</u> |
| <u>U.S. Department of National and Community Service</u> | | | |
| <i>Direct Program:</i> | | | |
| National Service Award for Scholarships | 94.006 | <u>3,500</u> | <u>-</u> |
| <u>U.S. Department of Veterans Affairs</u> | | | |
| <i>Direct Program:</i> | | | |
| Veterans Educational Assistance | 64.027 | <u>995</u> | <u>-</u> |
| <u>Research & Development Cluster</u> | | | |
| <u>U.S. National Science Foundation</u> | | | |
| <i>Direct Program:</i> | | | |
| STEM Scholarship Program | 47.076 | 116,153 | - |
| <i>Passed through Cal Poly Corporation at CSU San Luis Obispo:</i> | | | |
| NSF COINS | 47.076 | 12,421 | - |
| <i>Pass through University Corporation at CSU Monterey Bay:</i> | | | |
| Academic Integrity Management | 47.076 | <u>19,908</u> | <u>-</u> |
| Total Research & Development Cluster | | <u>148,482</u> | <u>-</u> |
| Total Federal Programs | | <u>\$ 15,026,721</u> | <u>\$ 253,791</u> |

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF STATE FINANCIAL AWARDS
 For the Year Ended June 30, 2017

| | Program Revenues | | | | Total | Total Program Expenditures |
|---|------------------|---------------------|-------------------------------------|-----------|-----------|----------------------------|
| | Cash Received | Accounts Receivable | Unearned Revenue / Accounts Payable | Total | | |
| 21st Century Soft Skills | \$ 20,260 | \$ - | \$ 8,765 | \$ 11,495 | \$ 11,495 | |
| AB-104 2015-16 | 1,060,892 | - | 229,170 | 831,722 | 831,722 | |
| AB-104 2016-17 | 3,490,139 | - | 793,395 | 2,696,744 | 2,696,744 | |
| Basic Skills | 122,798 | - | 95,885 | 26,913 | 26,913 | |
| Basic Skills and Student Outcome Transformation | 600,000 | - | 501,288 | 98,712 | 98,712 | |
| Block Grants | 1,187,155 | - | - | 1,187,155 | 1,187,155 | |
| Cal Grants | 1,114,650 | - | - | 1,114,650 | 1,114,650 | |
| CalWORKS | 229,892 | - | - | 229,892 | 229,892 | |
| CalWORKS - County DSS | 93,501 | 58,655 | - | 152,156 | 152,156 | |
| CARE | 164,497 | - | - | 164,497 | 164,497 | |
| CCC Makerspace | 20,000 | - | 8,527 | 11,473 | 11,473 | |
| Career Technical Education Enhancement | 50,000 | - | 50,000 | - | - | |
| Child Care and Development | | | | | | |
| Childcare Tax Bailout | 37,416 | - | - | 37,416 | 37,416 | |
| California State Preschool | 442,846 | 41,017 | - | 483,863 | 483,863 | |
| Disabled Students Programs and Services (DSPS) | 501,021 | - | - | 501,021 | 501,021 | |
| Equal Employment Opportunity | 60,000 | - | 897 | 59,103 | 59,103 | |
| Extended Opportunity Programs and Services (EOPS) | 768,422 | - | - | 768,422 | 768,422 | |
| First 5 Program | 43,386 | 33,848 | - | 77,234 | 77,234 | |
| First 5 Tech Assistance | - | 1,743 | - | 1,743 | 1,743 | |
| Foster & Kinship Care Education (FKCE) | 86,457 | 17,171 | - | 103,628 | 103,628 | |
| Foster & Kinship Care Education (FKCE): Commercial Sexual Exploitation of Children (CSEC) | - | 6,500 | - | 6,500 | 6,500 | |
| Full-Time Student Success Grant (FTSSG) | 412,122 | - | 83,789 | 328,333 | 328,333 | |
| Innovation and Effectiveness | 150,000 | - | 11,694 | 138,306 | 138,306 | |
| Innovation Award | 2,449,470 | - | 2,203,723 | 245,747 | 245,747 | |
| Lottery- Proposition 20 | 194,353 | 171,340 | - | 365,693 | 365,693 | |
| Mathematics-Engineering-Science-Achievement (MESA) | 30,440 | 13,733 | - | 44,173 | 44,173 | |
| Nursing Assessment, Remediation, & Retention | 78,660 | 6,840 | - | 85,500 | 85,500 | |
| Nursing Enrollment Growth | 104,972 | 9,128 | - | 114,100 | 114,100 | |
| OSHPD - Song Brown | 18,690 | 29,410 | - | 48,100 | 48,100 | |
| Strong Workforce Program | 850,472 | - | 723,708 | 126,764 | 126,764 | |
| Student Equity | 1,674,605 | - | 114,752 | 1,559,853 | 1,559,853 | |
| Student Financial Aid Administration (SFAA) | 345,422 | - | - | 345,422 | 345,422 | |
| Student Success | 2,368,006 | - | 190,211 | 2,177,795 | 2,177,795 | |
| Transition Aged Foster Youth (TAFY) Health & Wellness | - | 1,000 | - | 1,000 | 1,000 | |
| Youth Empowerment Strategies for Success (YESS-ILP) | 13,616 | 5,624 | - | 19,240 | 19,240 | |

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT
Annual Attendance as of June 30, 2017

| <u>Categories</u> | <u>Reported Data</u> | <u>Audit Adjustments</u> | <u>Revised Data</u> |
|--|--------------------------|------------------------------|-------------------------|
| A. Summer Intersession (Summer 2016 only) | | | |
| 1. Noncredit | - | - | - |
| 2. Credit | 748 | - | 748 |
| B. Summer Intersession (Summer 2017) - Prior to July 1, 2017) | | | |
| 1. Noncredit | - | - | - |
| 2. Credit | 31 | - | 31 |
| C. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Census Procedure Courses | | | |
| a. Weekly Census Contact Hours | 5,041 | - | 5,041 |
| b. Daily Census Contact Hours | 225 | - | 225 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| a. Noncredit | 5 | - | 5 |
| b. Credit | 500 | - | 500 |
| 3. Independent Study/Work Experience | | | |
| a. Weekly Census Contact Hours | 512 | - | 512 |
| b. Daily Census Contact Hours | 283 | - | 283 |
| c. Noncredit Independent Study/ Distance Education Courses | - | - | - |
| D. Total FTES | <u>7,345</u> | <u>-</u> | <u>7,345</u> |
| Supplemental Information: | | | |
| E. In-Service Training Courses (FTES) | 328 | - | 328 |
| H. Basic Skills Courses and Immigrant Education | | | |
| a. Noncredit | 4 | - | 4 |
| b. Credit | 489 | - | 489 |
| <u>CCFS 320 Addendum</u> | | | |
| CDCP Noncredit FTES | - | - | - |
| Centers FTES | | | |
| a. Noncredit | 8 | - | 8 |
| b. Credit | 388 | - | 388 |

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

There were no adjustments proposed to any funds of the District.

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2017

| | | |
|--|---------------------|-----------------------|
| General fund | | \$ 10,761,427 |
| Debt service fund | | 3,977,545 |
| Special revenue funds | | 1,056,669 |
| Capital projects funds | | 4,625,338 |
| Enterprise funds | | 463,807 |
| Internal service fund - self-insurance | | 2,024,131 |
| Fiduciary fund - student financial aid | | <u>-</u> |
| Total fund balances - business-type activity funds | | 22,908,917 |
| 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 | \$ 163,014,035 | |
| less Proprietary Fund capital assets | <u>(14,616)</u> | 162,999,419 |
| 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 | \$ 10,271,656 | |
| Deferred inflows of resources relating to pensions | <u>(1,226,000)</u> | 9,045,656 |
| 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. | | |
| | | (3,240,043) |
| 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 | \$ (146,191,666) | |
| Bond premiums | (2,571,288) | |
| Accreted interest | (19,666,937) | |
| Other long-term liabilities | (173,529) | |
| Other postemployment benefits | 2,477,323 | |
| Net pension liability | <u>(46,000,000)</u> | (212,126,097) |
| 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. | | |
| | | <u>11,469,757</u> |
| Total net position - business-type activities | | <u>\$ (8,942,391)</u> |

See accompanying note to supplementary information.

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

| Object/TOP Codes | Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110 | | Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799 | |
|--|---|-------------------|---|-------------------|
| | Reported Data | Audit Adjustments | Reported Data | Audit Adjustments |
| <u>Academic Salaries</u> | | | | |
| Instructional salaries: | | | | |
| Contract or regular | \$ 13,376,262 | \$ - | \$ 13,376,262 | \$ - |
| Other | - | - | - | - |
| Total instructional salaries | <u>13,376,262</u> | <u>-</u> | <u>13,376,262</u> | <u>-</u> |
| Non-instructional salaries: | | | | |
| Contract or regular | - | - | 3,281,137 | - |
| Other | - | - | - | - |
| Total non-instructional salaries | <u>-</u> | <u>-</u> | <u>3,281,137</u> | <u>-</u> |
| Total academic salaries | <u>13,376,262</u> | <u>-</u> | <u>16,786,632</u> | <u>-</u> |
| <u>Classified Salaries</u> | | | | |
| Non-instructional salaries: | | | | |
| Regular status | - | - | 7,847,464 | - |
| Other | - | - | - | - |
| Total non-instructional salaries | <u>-</u> | <u>-</u> | <u>7,847,464</u> | <u>-</u> |
| Instructional aides: | | | | |
| Regular status | 627,208 | - | 627,208 | - |
| Other | - | - | - | - |
| Total instructional aides | <u>627,208</u> | <u>-</u> | <u>627,208</u> | <u>-</u> |
| Total classified salaries | <u>627,208</u> | <u>-</u> | <u>8,474,672</u> | <u>-</u> |
| Employee benefits | 4,350,431 | - | 9,487,322 | - |
| Supplies and materials | - | - | 364,094 | - |
| Other operating expenses | 661,600 | - | 4,658,165 | - |
| Equipment replacement | - | - | 84,813 | - |
| Total expenditures prior to exclusions | <u>\$ 19,015,501</u> | <u>\$ -</u> | <u>\$ 39,855,698</u> | <u>\$ -</u> |

(Continued)

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

| Object/TOP Codes | Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110 | | Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799 | |
|------------------|---|-------------------|---|-------------------|
| | Reported Data | Audit Adjustments | Reported Data | Audit Adjustments |
| | | | | Revised Data |
| | \$ | \$ | \$ | \$ |
| 5900 | 79,839 | - | 79,839 | - |
| 6441 | - | - | - | - |
| 6491 | - | - | - | - |
| 6740 | - | - | 137,539 | 137,539 |
| 5060 | - | - | 14,541 | 14,541 |
| 1000 | - | - | - | - |
| 2000 | - | - | - | - |
| 3000 | - | - | - | - |
| 4000 | - | - | - | - |
| 4100 | - | - | - | - |
| 4200 | - | - | - | - |
| 4300 | - | - | - | - |
| 4400 | - | - | - | - |
| 5000 | - | - | 1,443,904 | 1,443,904 |
| 6000 | - | - | - | - |
| 6300 | - | - | - | - |
| 6400 | - | - | 47,895 | 47,895 |
| 6410 | - | - | 36,918 | 36,918 |
| 6420 | - | - | 84,813 | 84,813 |
| | - | - | 84,813 | - |
| 7000 | - | - | 453,371 | 453,371 |
| | \$ 79,839 | \$ - | \$ 79,839 | \$ 2,134,168 |
| | \$ 18,935,662 | \$ - | \$ 18,935,662 | \$ 37,721,530 |
| | 50.20 % | - | 50.20 % | 100% |
| | | | \$ 18,860,765 | \$ 18,860,765 |

Exclusions

Activities to exclude:
 Instructional staff-retirees' benefits and retirement incentives
 Student health services above amount collected
 Student transportation
 Noninstructional staff-retirees' benefits and retirement incentives
 Objects to exclude:
 Rents and leases
 Lottery expenditures
 Academic salaries
 Classified salaries
 Employee benefits
 Supplies and materials:
 Software
 Books, magazines and periodicals
 Instructional supplies and materials
 Noninstructional supplies and materials
 Total supplies and materials
 Other operating expenses and services
 Capital outlay
 Library books
 Equipment:
 Equipment - additional
 Equipment - replacement
 Total equipment
 Total capital outlay
 Other outgo
 Total exclusions
 Total for ECS 84362, 50% Law
 Percent of CEE (Instructional salary cost / Total CEE)
 50% of current expense of education

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
 PROP 55 EPA EXPENDITURE REPORT
 For the Year Ended June 30, 2017

| | | | | | |
|--------------------------------|--------------------------------------|--|---|----------------------------------|---------------------|
| EPA Proceeds: | \$ 5,891,168 | | | | |
| <u>Activity Classification</u> | <u>Activity Code (0100-5900)</u> | <u>Salaries and Benefits (1000-3000)</u> | <u>Operating Expenses (4000-5000)</u> | <u>Capital Outlay (6000)</u> | <u>Total</u> |
| Total EPA | <u>-</u> | <u>\$ 5,891,168</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,891,168</u> |

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
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 Hartnell 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.

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 State 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 attendance of students based on various methods of accumulating attendance data.

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

This schedule discloses any adjustments to fund balance as reported on the CCFS-311 to fund balance used in 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.

F - Reconciliation of ECS 84362 (50 Percent Law) Calculation

This schedule provides the information necessary to reconcile the 50 Percent Law Calculation reported on the CCFS-311 to the audited data.

G - Prop 55 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 STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Hartnell Community College District
Salinas, California

Report on Compliance with State Laws and Regulations

We have audited the compliance of Hartnell 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 Hartnell 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 Hartnell Community College District's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Hartnell 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. However, our audit does not provide a legal determination of Hartnell Community College District's compliance with those requirements.

(Continued)

Opinion on Compliance with State Laws and Regulations

In our opinion, Hartnell Community College District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2017.

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.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Sacramento, California
November 30, 2017

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

Board of Trustees
Hartnell Community College District
Salinas, 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 discretely presented component unit and fiduciary activities of Hartnell Community College District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Hartnell Community College District's basic financial statements, and have issued our report thereon dated November 30, 2017. The financial statements of Hartnell College Foundation 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 Hartnell College Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hartnell 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 Hartnell Community College District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hartnell 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 Hartnell 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

Sacramento, California
November 30, 2017

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

Board of Trustees
Hartnell Community College District
Salinas, California

Report on Compliance for Each Major Federal Program

We have audited Hartnell 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 Hartnell Community College District's major federal programs for the year ended June 30, 2017. Hartnell 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 statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hartnell 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 Hartnell 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 Hartnell Community College District's compliance.

(Continued)

Opinion on Each Major Federal Program

In our opinion, Hartnell 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.

Report on Internal Control Over Compliance

Management of Hartnell 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 Hartnell 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 Hartnell 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

Sacramento, California
November 30, 2017

FINDINGS AND RECOMMENDATIONS

HARTNELL COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' 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 auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?

| | | |
|--|-----------|------------|
| | _____ Yes | ___X___ No |
|--|-----------|------------|

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|--|---|
| 84.007, 84.033, 84.063, 84.000 93.658 | Student Financial Aid Cluster Foster Care Programs |

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 auditors' report issued on compliance for state programs: Unmodified

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

HARTNELL COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2017

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>District Explanation If Not Fully Implemented</u> |
|--|-----------------------|--|
| 2016-001 | Implemented. | |
| <u>Condition:</u> Two expenditures tested were not for allowable SSSP purposes. Sample selections were made from a listing of expenditures of SSSP funds in the 2015-2016 academic year. The District expended \$600 on gift cards to be awarded to students during a SSSP recruiting event and \$6,528 on t-shirts and hats for SSSP staff. Gifts and clothing are unallowable expenditures in accordance with the SSSP handbook. | | |
| <u>Recommendation:</u> The District should enhance the approval process over SSSP expenditures to ensure it is in accordance with the SSSP handbook. | | |