SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
ORANGE COUNTY

REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2017

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Orange County Community College District
Mission Viejo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the fiduciary activities and the aggregate discretely presented component units of the South Orange County Community College District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinion

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

Emphasis of a Matter

During fiscal year ended June 30, 2017, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans,* No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and No. 84 *Fiduciary Activities.* As a result of the implementation of these standards, the District reported a restatement for the change in accounting principle (see Note 15). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report October 5, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
October 5, 2017

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

INTRODUCTION TO THE BASIC FINANCIAL STATEMENTS

The South Orange County Community College District serves over 40,000 students who attend Saddleback College in Mission Viejo, Irvine Valley College in Irvine, and the Advanced Technology & Education Park (ATEP) in Tustin. Due to prudent management and conservative fiscal policies, our District has prepared for the challenging budget times by creating reserves, retiring debt, fully funding the retiree liability, and implementing efficiencies throughout all operations. Strategic planning, investments in technology and increasing online services to students ensure we meet the current and growing demands of transfer to four-year colleges, workforce training, career technical preparation, and basic skills. Over 3,000 employees in the South Orange County Community College District are committed to providing the best educational foundation possible for our students with respect for taxpayers. We invite you to learn more about us and our services to students and the community at www.socccd.edu.

ACCOUNTING STANDARDS

The South Orange County Community College District continues to present its financial statements in the Business-Type Activities reporting format required by statements released by the Government Accounting Standards Board (GASB) in 1999. The format prescribed by GASB focuses on the District as a whole rather than on individual funds.

The following management's discussion and analysis provides an overview of the financial position and activities of the South Orange County Community College District's Financial Report for the year ended June 30, 2017. The previous year's financial statements that provide information on the District as a whole:

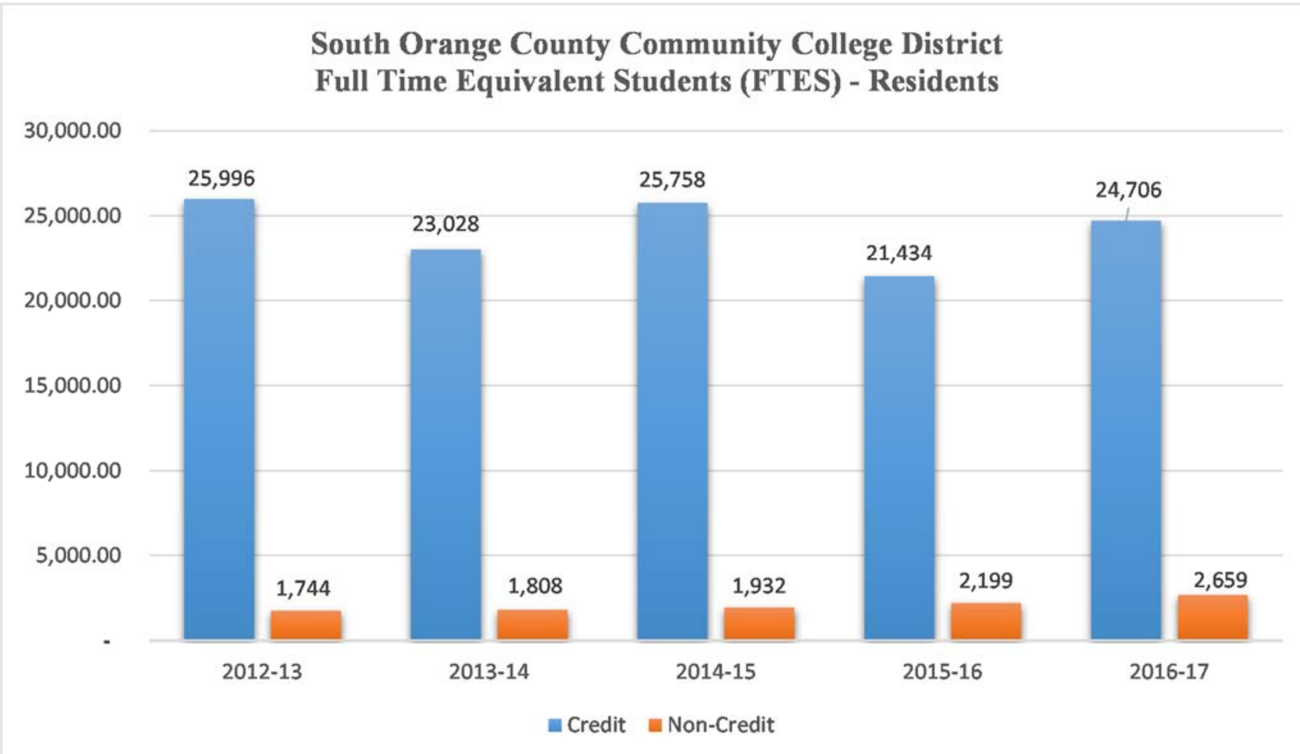
The Statement of Net Position
The Statement of Revenues, Expenses and Changes in Net Position
The Statement of Cash Flows

Each of these statements will be reviewed and significant events discussed.

FINANCIAL AND ENROLLMENT HIGHLIGHTS

The District ended the year with a strong General Fund ending balance. The ability to maintain a prudent reserve of 7.5% affords cash flow stability for the District without external borrowing. Property taxes continue to provide a reliable revenue source that allows the District some protection from state budget cuts and forced workload reductions.

Reported resident enrollments at the colleges increased in FY 2016-2017 by 9% from the prior year. This is primarily the result of the timing of reporting FTES (full-time equivalent students) for strategic planning rather than an actual increase in students served. A history of reported resident student enrollments is provided below.



Non-resident enrollment increased by 15% in fiscal year 2016-17. In fiscal year 2015-16 the District reported 1,529 FTES and in fiscal year 2016-17 it increased to 1,752.

STATEMENT OF NET POSITION

The Statement of Net Position presents information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

There are two changes that had a significant impact on the financial statements this year. The first is the inclusion of the Pension Stability Trust (PST) in the primary government financials. The second change is the implementation of GASB 74 which requires additional entries related to our OPEB Trust. The impact of these changes are noted in the narratives below.

	2017	2016	Net Change
Assets			
Current assets	$ 378,793,738	$ 346,023,072	$ 32,770,666
Non-current assets	371,272,610	358,659,922	12,612,688
Total Assets	750,066,348	704,682,994	45,383,354
Deferred Outflows of Resources	41,275,283	15,906,777	25,368,506
Liabilities			
Current liabilities	52,753,129	54,922,978	(2,169,849)
Non-current liabilities	193,199,443	145,069,807	48,129,636
Total Liabilities	245,952,572	199,992,785	45,959,787
Deferred Inflows of Resources	10,572,054	20,721,518	(10,149,464)
Net Position			
Net investment in capital assets	367,017,057	358,563,672	8,453,385
Restricted	84,613,006	29,072,393	55,540,613
Unrestricted	83,186,942	112,239,403	(29,052,461)
Total Net Position	$ 534,817,005	$ 499,875,468	$ 34,941,537

Assets

Total Assets increased approximately $45 million, a percentage increase of 6%. The major changes affecting total assets are listed below:

- Current assets increased approximately $33 million. This was due primarily to an increase in cash for property tax revenues and the inclusion of $27 million for the Pension Stability Trust.

- Non-current assets increased $13 million over the prior year primarily due to increases in capital assets and construction in progress for projects such as the Saddleback College new Science building, Fine Arts HVAC renovation, and Stadium projects.

Liabilities

Total liabilities increased by approximately $46 million; an increase of 23%. The major changes affecting total liabilities are listed herein.

- Current liabilities decreased approximately $2.8 million. Accounts payable decreased approximately $8 million for completed capital outlay projects. Deferred revenue increased by approximately $5 million for state categorical programs for Adult Education and Strong Workforce funding.

- Non-current liabilities increased by $48.8 million as a result of an increase of $38.5 million in the Net Pension Liability, an increase of $9.3 million for the Early Retirement Incentive program, and a $1.1 million increase in compensated absences as described in Note 11.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District reports 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District 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 and so will not be recognized as an inflow of resources (revenue) until that time.

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* the District recognized deferred outflows and inflows of resources related to pensions in the District-wide financial statements. Refer to Note 9 for the District's deferred outflows and inflows of resources related to pensions.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to receivables and expenses pertaining to earned, but unused, compensated balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

Operating Revenues	2017	2016	$ Change	% Change
Student tuition and fees	$ 50,193,958	$ 48,460,902	$ 1,733,056	3.58%
Less: scholarship discount & allowance	(10,898,064)	(13,236,064)	2,338,000	-17.66%
Net tuition & fees	39,295,894	35,224,838	4,071,056	11.56%
Grants and contracts, noncapital:				
Federal	2,955,543	2,987,343	(31,800)	-1.06%
State	30,295,475	19,571,211	10,724,264	54.80%
Local	1,797,062	1,982,127	(185,065)	-9.34%
Internal service sales and charges	(10,740,212)	(13,185,327)	2,445,115	-18.54%
Subtotal	24,307,868	11,355,354	12,952,514	114.07%
Total Operating Revenues	63,603,762	46,580,192	17,023,570	36.55%
Operating Expenses				
Salaries	144,218,652	131,867,108	12,351,544	9.37%
Benefits	60,206,601	63,482,955	(3,276,354)	-5.16%
Financial Aid	28,960,083	29,224,426	(264,343)	-0.90%
Supplies, materials, & other operating expenses	37,357,365	27,787,612	9,569,753	34.44%
Utilities	4,607,626	3,423,301	1,184,325	34.60%
Depreciation	18,372,925	12,864,406	5,508,519	42.82%
Total Operating Expenses	293,723,252	268,649,808	25,073,444	9.33%
Operating Loss	(230,119,490)	(222,069,616)	(8,049,874)	3.62%
Nonoperating Revenues (Expenses)				
State apportionment, non-capital	6,994,156	4,072,351	2,921,805	71.75%
Local property taxes	196,566,594	185,161,046	11,405,548	6.16%
Federal grants and contracts, noncapital	25,210,852	27,772,603	(2,561,751)	-9.22%
State taxes & other revenues	13,788,727	26,218,428	(12,429,701)	-47.41%
Investment income(loss) - noncapital	1,809,172	590,889	1,218,283	206.18%
Total Nonoperating Revenues (Expenses)	244,369,501	243,815,317	554,184	0.23%
Gain Before Other Revenues and Losses	14,250,011	21,745,701	(7,495,690)	-34.47%
Other Revenues and (Losses)				
State apportionments, capital	25,212	770,761	(745,549)	-96.73%
Local revenues, grants and gifts, capital	10,793,101	11,485,453	(692,352)	-6.03%
Interest and investment income, capital	1,788,389	1,197,781	590,608	0.00%
Loss on disposal of equipment	-	(110,035)	110,035	-100.00%
Total Other Revenues and Losses	12,606,702	13,343,960	(737,258)	-5.53%
Change in Net Position	26,856,713	35,089,661	(8,232,948)	-23.46%
Net Position - Beginning	499,875,468	464,785,807	35,089,661	7.55%
Cumulative effect of change in accountin principles	8,084,824	-	8,084,824	-
Net Position - Beginning	507,960,292	464,785,807	43,174,485	9.29%
Net Position - Ending	$ 534,817,005	$ 499,875,468	$ 34,941,537	6.99%

Operating Revenues

Total Operating Revenues increased by approximately $17 million, a percentage increase of 36%.

- Net tuition and fees experienced an increase of $4 million, approximately 11%. Fee revenue increased by $1.7 million primarily as a result of higher non-resident tuition revenue. Scholarship discounts and allowances decreased by $2.3 million from lower demand in state BOGG fee waivers.

- Non capital grants and contracts increased $10.5 million, an increase of 43%. Factors contributing to this include an $800 thousand increase in Physical Plant & Instructional Equipment Support, $2.3 million of increased funding for Student Success and Student Equity programs, $400 thousand for the Strong Workforce program, and $4.6 million for the Adult Ed Block Grant program.

- Internal Service Sales and Charges increased by $2.4 million, primarily as a result of the inclusion of the PST.

Operating Expenses

Total Operating Expenses increased by 9%, approximately $25 million. Items of significance affecting the changes include:

- Salaries and benefits increased by approximately $9 million, an increase of 5%. Salaries increased by $12.3 million (9%) primarily as a result of negotiated salary increases and step and column movement. Benefits decreased by $3.3 million or 5% due to the net effect of GASB 68 and 74 reporting requirements for pension benefits, offset by higher pension contribution rates and benefit premiums.

- Supplies, materials and other operating expenses increased by $9.5 million, an increase of 34%. The increase was primarily for capital outlay related costs for projects that were completed during the year.

- Utilities increased by $1.2 million, an increase of 35%, due to higher electricity costs and use, and increased maintenance of the central co-generation plant.

- Depreciation increase by $5.5 million (43%) due to new buildings and other capital assets coming on-line.

Non-Operating Revenues (Expenses)

Non-Operating Revenues increased by $0.5 million mainly due to the net effect of the following:

- Non-capital State apportionment increased by $2.9 million, a 72% increase. This is due to state prior year funding corrections ($1.3 million), and additional funds for hiring full-time faculty ($1.7 million).

- The increase of $11 million, 6%, in local property tax reflects the moderate growth trend of the local property tax base.

- Federal grants and contracts decreased by $2.6 million, 9%, primarily as a result of decreased Pell grant awards at both colleges.

- State taxes and other revenues decreased $12 million, 47%, due to one-time state resources for the backlog of mandated costs claims in FY 2015-2016.

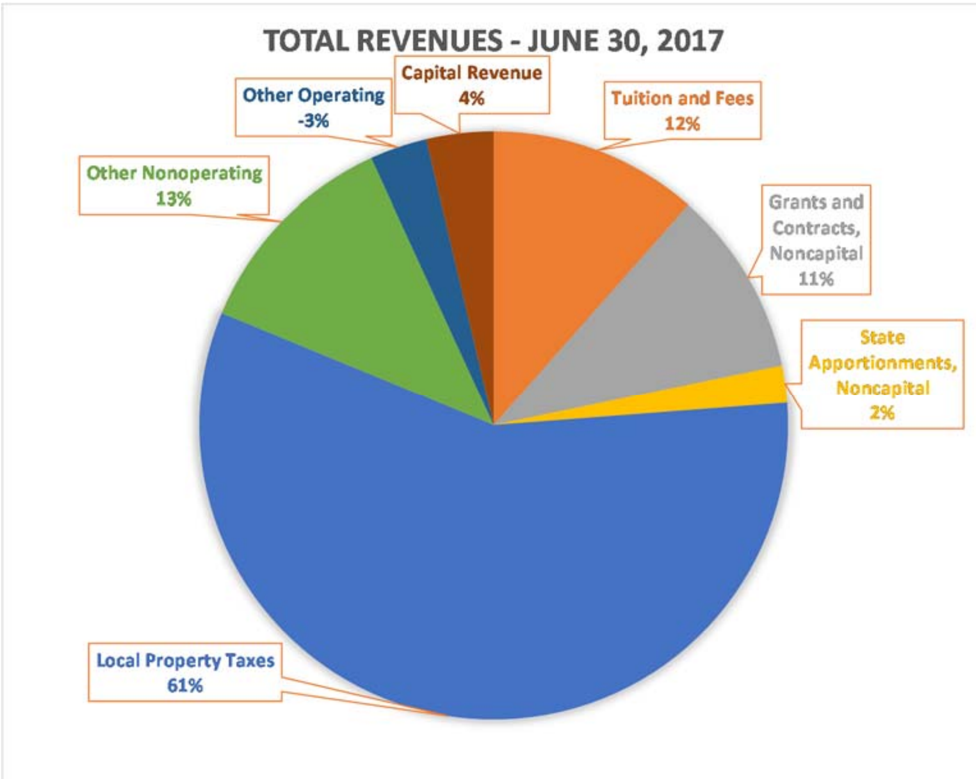
- Investment income increased by $1.2 million largely as a result of the inclusion of the PST and higher investment returns.

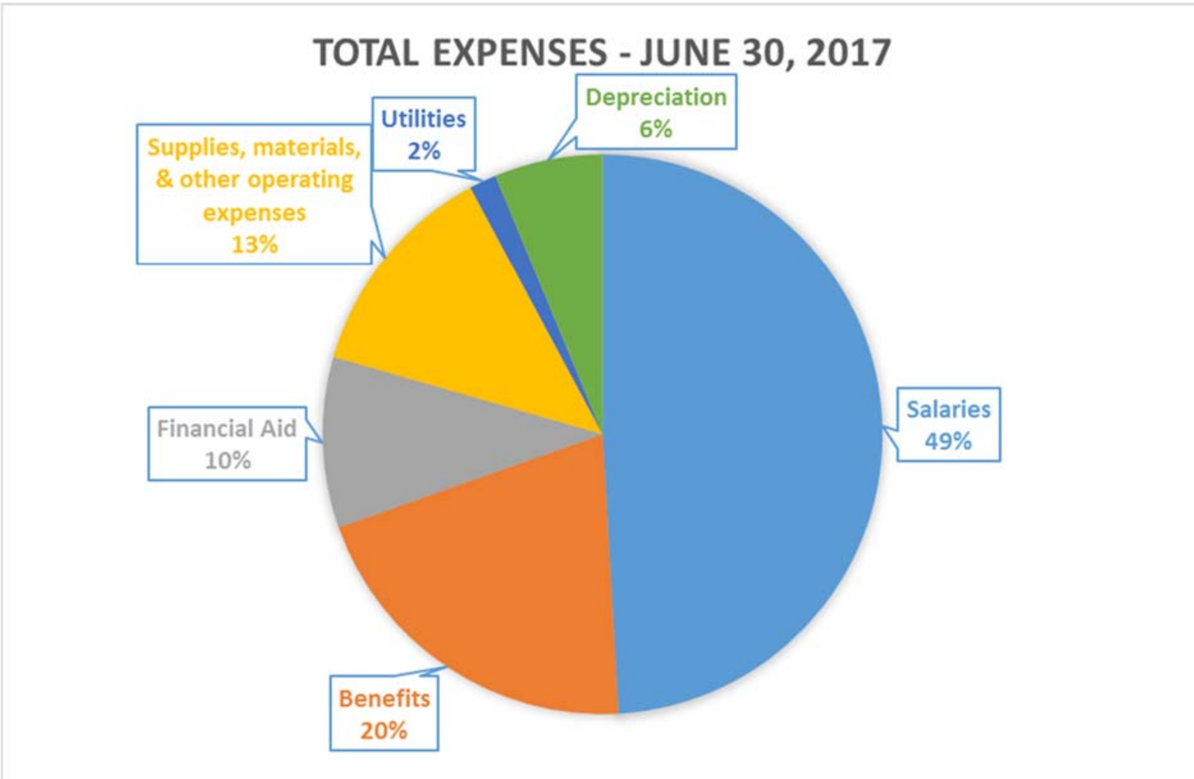
Capital contributions

Capital contributions decreased by 5.5%, approximately $737 thousand.

- State apportionments for capital decreased $745 thousand due to the lack of energy efficiency project funds in FY 2016-2017.

- Interest and investment income for capital increased $590 thousand, 49%, due to improved return rates and larger cash balances in the capital outlay fund.


TOTAL REVENUES - JUNE 30, 2017
Capital Revenue
4%
Other Operating
-3%
Tuition and Fees
12%
Other Nonoperating
13%
Grants and Contracts, Noncapital
11%
State Apportionments, Noncapital
2%
Local Property Taxes
61%



District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2017, the District had approximately $367 million invested in net capital assets. Total capital assets of $551.7 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of $184.7 million. In FY 2016- 2017, there were capital asset additions in the amount of $140.6 million. Deletions of $113.8 million are for completed construction in progress moved to buildings and equipment assets. Depreciation expense of $18.4 million was recorded for FY 2016-2017.

Note 5 to the financial statements provides additional information on capital assets. A comparison of capital assets net of depreciation is summarized below:

	2017	2016	Net Change
Land and construction in progress	$ 95,000,623	$ 183,869,184	$ (88,868,561)
Buildings and equipment	456,740,788	341,045,917	115,694,871
Accumulated depreciation	(184,724,354)	(166,351,429)	(18,372,925)
Total Capital Assets	$ 367,017,057	$ 358,563,672	$ 8,453,385

Debt

At June 30, 2017, the District had $195.7 million in debt. Note 11 provides additional information on long-term liabilities. A comparison is summarized below:

	2017	2016	Net Change
Compensated absences	$ 5,151,875	$ 4,014,127	$ 1,137,748
Claims liability	459,777	321,673	138,104
Early retirement incentive	9,275,763	-	9,275,763
Net pension liability	180,807,787	142,345,492	38,462,295
Total Long-Term Liabilities	$ 195,695,202	$ 146,681,292	$ 49,013,910

ECONOMIC OUTLOOK AND FACTORS AFFECTING NEXT YEAR'S BUDGET

The FY 2017-2018 state budget for community colleges included a 1.56% cost of living adjustment (COLA) on general purpose apportionments, $183.6 million base allocation increase, and 1% for growth funding statewide. The District's calculated growth rate is 0.5%, although the colleges are not expected to grow above current funding levels. While the District does not receive general apportionment funds from the state, increases were funded to the colleges in the allocation model with property tax revenues.

The District has been identified as a "locally funded" district since 1999-2000, meaning its primary source of revenue comes from local property taxes, not state apportionment. The FY 2017-2018 adopted budget assumes an increase in property tax revenue of 4% from FY 2016-2017 actual receipts. This assumption is based on prior years' history and conservative estimations provided by the county auditor/controller's office. Property tax receipts have been a stable revenue source with moderate growth in recent years. The District continues to experience sufficient revenue to maintain funding of the colleges and allow for future capital projects.

Excess funds over what would be received from the state funding formula are used to pay for long-term debt, one-time expenditures, and capital outlay needs.

The state budget continues to provide increased funding for student services including funds for veteran's services, guided pathways, and student success grants. Funds were also provided for facility scheduled maintenance, instructional equipment, and energy efficiency projects.

The most recent actuarial study was completed for OPEB liability as of January 2017. Based on a discount rate of 6%, the actuarial accrued surplus is $314 thousand. The District has budgeted sufficient funds to meet the annual required contribution for FY 2017-2018. The next actuarial study will be completed in January 2018.

In 2015, the legislature approved increases in the employer STRS contribution rate through FY 2020-2021 in order to address the large unfunded liability. For FY 2017-2018, the rate increases from 12.58% to 14.43%. Projected rate increases for PERS are also expected to be significant in the coming years. For FY 2017-2018, the PERS rate increases from 13.888% to 15.531%. The District created a Pension Stability Trust to pre-fund the increased costs anticipated through FY 2020-2021. The final allocation of $12.6 million will be transferred to the trust in FY 2017-2018.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be addressed to the South Orange County Community College District, Office of the Executive Director of Fiscal Services, 28000 Marquerite Parkway, Mission Viejo, CA 92692-3635.

BASIC FINANCIAL STATEMENTS

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION
June 30, 2017

	Primary Government	Component Units
Assets		
Current Assets:		
Cash and cash equivalents	$ 313,445,443	$ 409,385
Investments	52,986,362	11,480,071
Accounts receivable, net	9,540,193	955,022
Inventory	43,869	-
Prepaid expenses	2,340,658	44,633
Due from component units	362,640	-
Due from fiduciary funds	74,573	-
Total Current Assets	378,793,738	12,889,111
Non-Current Assets:		
OPEB asset	4,255,553	-
Capital assets, net of accumulated depreciation	367,017,057	13,625
Total Non-Current Assets	371,272,610	13,625
Total Assets	750,066,348	12,902,736
Deferred Outflows of Resources		
Deferred outlflows - pension	41,275,283	-
Total Deferred Outflows of Resources	41,275,283	-
Total Assets and Deferred Outflows of Resources	$ 791,341,631	$ 12,902,736

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION
June 30, 2017

	Primary Government	Component Units
Liabilities		
Current Liabilities:		
Accounts payable	$ 12,456,977	$ 101,776
Accrued liabilities	9,053,332	336,891
Unearned revenue	28,747,061	-
Current portion of long term liabilities	2,495,759	-
Total Current Liabilities	52,753,129	438,667
Non-Current Liabilities		
Non-current portion of long term liabilities	193,199,443	-
Total Non-Current Liabilities	193,199,443	-
Total Liabilities	245,952,572	438,667
Deferred Inflows of Resources		
Deferred inflows - pensions	10,572,054	-
Net Position		
Net investment in capital assets	367,017,057	-
Restricted for:		
Capital projects	72,678,712	-
Scholarship and loans	22,752	6,237,067
Other special purposes	9,765,926	-
Restricted - nonexpendable	2,145,616	-
Permanently Restricted		4,964,341
Unrestricted	83,186,942	1,262,661
Total Net Position	534,817,005	12,464,069
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 791,341,631	$ 12,902,736

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2017

	Primary Government	Component Units
Operating Revenues		
Tuition and fees (gross)	$ 50,193,958	$ -
Less: Scholarship discounts and allowances	(10,898,064)	-
Net tuition and fees	39,295,894	-
Grants and contracts, non-capital:		
Federal	2,955,543	-
State	30,295,475	-
Local	1,797,062	4,123,249
Internal service sales and charges	(10,740,212)	-
Total Operating Revenues	63,603,762	4,123,249
Operating Expenses		
Salaries	144,218,652	529,152
Employee benefits	60,206,601	156,265
Supplies, materials, and other operating expenses and services	37,357,365	3,496,939
Financial aid	28,960,083	-
Utilities	4,607,626	-
Depreciation	18,372,925	2,305
Total Operating Expenses	293,723,252	4,184,661
Operating Income (Loss)	(230,119,490)	(61,412)
Non-Operating Revenues (Expenses)		
State apportionments, non-capital	6,994,156	-
Local property taxes	196,566,594	-
Federal grants and contracts, non-capital	25,210,852	-
States taxes and other revenue	13,788,727	-
Interest and investment income, non-capital	1,809,172	1,072,110
Total Non-Operating Revenues (Expenses)	244,369,501	1,072,110
Income Before Other Revenues, Expenses, Gains and Losses	14,250,011	1,010,698
Other Revenues, Expenses, Gains and Losses		
State apportionments, capital	25,212	-
Interest and investment income, capital	1,788,389	-
Local revenue, grants and gifts, capital	10,793,101	-
Total Other Revenues, Expenses, Gains and Losses	12,606,702	-
Changes in Net Position	26,856,713	1,010,698
Net Position, Beginning of Year	499,875,468	11,453,371
Cumulative effect of change in accounting principles (see Note 15)	8,084,824	-
Net Position, Beginning of Year After Restatement	507,960,292	11,453,371
Net Position, End of Year	$ 534,817,005	$ 12,464,069

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017

	Primary Government	Component Units
Cash Flows From Operating Activities		
Tuition and fees	$ 38,999,136	$ -
Federal grants and contracts	3,347,619	-
State grants and contracts	33,569,126	-
Local grants and contracts	1,807,231	3,092,515
Payments to suppliers	(42,112,071)	(1,917,480)
Payments to/on-behalf of employees	(203,976,184)	(621,179)
Payments to/on-behalf of students	(28,889,862)	(829,452)
Other miscellaneous payments	(8,086,716)	-
Net cash provided (used) by operating activities	(205,341,721)	(275,596)
Cash Flows From Non-Capital Financing Activities		
State apportionments and receipts	6,994,156	-
Property taxes	195,893,954	-
Grants and gifts for other than capital purposes	38,999,579	-
State tax and other revenues	10,793,101	-
Net cash provided (used) by non-capital financing activities	252,680,790	-
Cash Flows From Capital and Related Financing Activities		
State apportionment for capital purposes	25,212	-
Local revenue, grants and gifts for capital purposes	67,361	-
Net purchases of capital assets	(33,577,268)	-
Net cash provided (used) by capital and financing activities	(33,484,695)	-
Cash Flows from Investing Activities		
Interest on investments	3,597,561	288,696
Proceeds from sale of investments	-	254,709
Purchase of investments	(12,223,271)	(1,011,298)
Net cash provided (used) by investing activities	(8,625,710)	(467,893)
Net Change in Cash and Cash Equivalents	5,228,664	(743,489)
Cash Balance - Beginning of Year	308,216,779	1,152,874
Cash Balance - End of Year	$ 313,445,443	$ 409,385

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	Primary Government	Component units
Cash Provided (Used) by Operating Activities		
Operating income (loss)	$ (230,119,490)	$ (61,412)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	18,372,925	2,305
Changes in assets and liabilities:		
Receivables, net	1,187,093	169,561
Inventory	(5,766)	-
Prepaid expense	(1,197,314)	(32,763)
Due from component units and fiduciary funds	96,505	-
Deferred outflows of current year pension contributions	(25,368,506)	-
Accounts payable	1,190,430	(417,527)
Accrued liabilities	(2,048,182)	64,240
Net pension liabilities	38,462,294	-
Unearned revenue	4,684,827	-
Compensated absences	1,137,747	-
OPEB asset	(10,998,687)	-
Estimated liability for open claims and IBNR's	138,104	-
Supplemental employee retirement plan	9,275,763	-
Deferred inflows of pension plan investments	(10,149,464)	-
Net cash provided (used) by operating activities	$ (205,341,721)	$ (275,596)

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017

	Associated Student Government Trust Funds
Assets	
Cash and cash equivalents	$ 287,047
Investments	79,207
Accounts receivable	103,444
Total Assets	$ 469,698
Liabilities	
Accounts payable	$ 11,168
Due to District	74,573
Deferred revenue	21,861
Funds held in trust	71,839
Total Liabilities	179,441
Net Position	
Unrestricted	290,257
Total Net Position	290,257
Total Liabilities and Net Position	$ 469,698

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2017

	Associated Student Government Trust Funds
Additions	
Sales and other local revenues	$ 866,998
Interest income	586
Total Additions	867,584
Deductions	
Salaries	136,031
Benefits	68,702
Supplies and materials	64,091
Other operating expenses and services	465,565
Capital outlay	21,469
Student financial aid	131,276
Total Deductions	887,134
Net Changes in Net Position	(19,550)
Net Position, Beginning of Year	309,807
Net Position, End of Year	$ 290,257

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF PLAN NET POSITION
June 30, 2017

	Retiree Health Benefit (OPEB) Trust
Assets	
Investments	$ 110,063,884
Total Assets	$ 110,063,884
Net Position	
Restricted - nonspendable	110,063,884
Total Net Position	$ 110,063,884

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN PLAN NET POSITION
For the Fiscal Year Ended June 30, 2017

	Retiree Health Benefit (OPEB) Trust
Additions	
Employer contributions	$ 6,390,000
Interest income	10,662,951
Sales and other local revenue	3,558,418
Total Additions	20,611,369
Deductions	
Benefits	3,550,218
Other operating expenses and services	335,598
Total Deductions	3,885,816
Net Changes in Net Position	16,725,553
Net Position, Beginning of Year as amended (see Note 15)	93,338,331
Net Position, End of Year	$ 110,063,884

See accompanying notes to the financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

South Orange County Community College District (District) is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and a financial benefit or burden relationship is present and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Due to the nature and significance of their relationship with the District, including ongoing financial support of the District or its other component units, certain organizations warrant inclusion as part of the financial reporting entity. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
- The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of the criteria listed above, the Facilities Corporation 2011 of the South Orange County Community College District (Corporation) has been included in the District's reporting entity as a blended component unit. Separate financial information may be obtained through the District.

Based upon the application of the criteria listed above, the following potential component units have been included in the District's reporting entity:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

South Orange County Community College District Foundation, Advanced Technology and Education Park Foundation, Saddleback College Foundation, and Irvine Valley College Foundation: The Foundations are a separate not-for-profit corporation formed to promote and assist the educational programs of the District. The Board of Governors are appointed independent of any District Board of Trustee's elections. The Board is responsible for their own accounting and finance related activities; however, the District's governing board has fiscal responsibility over the Foundations. The financial activities of the Foundations have been discretely presented. Separate financial statements for the Foundations may be obtained through the District.

Retiree Health Benefit OPEB Trust (the Trust): The Trust is an irrevocable governmental trust pursuant to Section 115 of the Internal Revenue Code for the purpose of funding certain post-employment benefits other than pensions. The Trust Board of Authority comprised of the Vice Chancellor of Business, Vice Chancellor of Human Resources and Employer/Employee Relations, District Executive Director of Fiscal Services/Comptroller, Vice President of Administrative Services, Saddleback College, and the Vice President of Administrative Services, Irvine Valley College, provide oversight over Trust investment and plan administration. As such, the District acts as the fiduciary of the Trust. Separate financial statements are prepared for the Trust.

Pension Stabilization Trust (the PST): The PST was established to help California public entities stabilize the funding of their pension benefit liabilities by creating a secure vehicle to hold assets pending their contribution to a pension plan in satisfaction of their funding obligation. The PST is an irrevocable governmental trust intended to qualify as a trust arrangement that is tax exempt under applicable guidance and procedures under Section 115 of the Internal Revenue Code. The PST is administered by Benefit Trust Company as directed by the Board of Authority, of which, the District appoints one member. Because the District is the sole beneficiary of the PST, the fund does not meet the definition of a fiduciary activity, thus, the PST is reported as a blended component unit. Separate financial statements are not prepared for the PST.

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund and the Retiree Benefits Fund, are excluded from the basic financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District’s basic 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 an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The statements of plan net position and changes in plan net position of the Retiree Health Benefit (OPEB) Trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

For internal accounting purposes, the budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor’s Office of the California Community College’s *Budget and Accounting Manual*.

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

By state law, the District's Governing Board must approve a budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The District's cash and cash equivalents, are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB.

Investments

Investments in governmental funds, the fiduciary fund and the OPEB Trust Fund are reported at fair value, which is determined by the most recent bid and asking price as obtained from dealers that make markets in such securities.

Accounts Receivables

Accounts receivable consists primarily of 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. Material receivables are considered fully collectible.

Bad debts are accounted for by the direct write-off method for student receivables, which is not materially different from the allowance method.

Inventories

Inventories are presented at the lower of cost or market on an average basis and are expensed when used. Inventory consists of expendable instructional, custodial, health and other supplies held for consumption.

Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair 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. Buildings as well as renovations to buildings, infrastructure, and land improvements with a unit cost of $150,000 or more and that significantly increase the value or extend the useful life of the structure are capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded as an operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 50 years for buildings, 10 years for building and land improvements, 8 years for equipment and vehicles and 3 years for technology.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has the following deferred outflows:

Deferred Outflows – Pensions: The deferred outflows of resources related to pensions results from the following and are recognized as follows:

- District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans will be recognized as a reduction of the net pension liability in the subsequent fiscal year.
- All other deferred outflows will be amortized to pension expense over the estimated average remaining service lifetime of plan participants (EARSL) over closed periods. The EARSL is 7 years for CalSTRS and 3.9 years for CalPERS. The first year of amortization is recognized in pension expense in the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods.

Accounts Payable and Accrued Liabilities

Accounts payable consists of amounts due to vendors for goods and services received prior to June 30. Accrued liabilities consist of salaries and benefits payable and load banking.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unearned Revenue

Cash received for Federal and state special projects, and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures. Unearned revenue also includes summer enrollment fees received but not earned.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability in the statement of net position when incurred.

The District has accrued a liability for the amounts attributable to load banking hours within accrued liabilities. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave; therefore, accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Net Pension Liability

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

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources related to pensions results from the following and are amortized to pension expense as follows:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- The net differences between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period.
- All other deferred inflows will be amortized to pension expense over the estimated average remaining service lifetime of plan participants (EARSL) over closed periods. The EARSL is 7 years for CalSTRS and 3.9 years for CalPERS. The first year of amortization is recognized in pension expense in the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods.

Net Position

Net Investment in Capital Assets: This represents the District's total investment in capital assets, net of 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 invested in capital assets, net of related debt.

Restricted Net Position – Expendable: Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Restricted Net Position – Nonexpendable: Nonexpendable 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 principal.

Unrestricted Net Position: Unrestricted net position represents resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board, as designated, to meet current expenses for specific future purposes.

State Apportionments

The District does not receive state apportionments for the base calculation because it receives more than sufficient revenues from enrollment fees and property taxes. The excess property taxes above the base revenue calculations is referred to as basic aid funding.

The District does receive state apportionments for categorical programs. These allocations are based on various financial and statistical information from the current and previous years.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31 and become delinquent after August 31.

The District reports real and personal property tax on an accrual basis. A receivable has been accrued in these financial statements to reflect the amount of property taxes receivable as of June 30, 2017.

Classification of Revenues

The District has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and Federal and most state and local grants and contracts.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as nonoperating revenues by GASB.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported gross of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge 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, and other Federal, state or nongovernmental programs, 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.

Classification of Revenues – Proprietary Funds

Proprietary funds distinguish operating revenues from non-operating revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as food service sales, Federal and most State and local grants and contracts, and self-insurance premiums. Non-operating revenues include activities that have the characteristics of non-exchange transactions that are defined as nonoperating revenues by GASB.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

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

Reclassifications

Certain beginning balances from the 2015-16 financial statements have been reclassified to conform to the 2016-17 presentation.

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2017, $7,763,087 of the District's bank balance of $8,013,992 was exposed to credit risk as uninsured and uncollateralized.

Cash in County Treasury

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the Orange County Treasury as part of the common investment pool. At June 30, 2017 total Cash in County is $305,521,252. The District is considered an involuntary participant in the investment pool. These pooled funds are recorded at amortized cost which approximates fair value. Fair value of the pooled investments at June 30, 2017 is measured at 99.69% of amortized cost. The District's investments in the fund are considered to be highly liquid and reflected in the financial statements as cash and cash equivalents in the statement of net position.

The County is authorized to deposit cash and invest excess funds by California Government Code Sections 53534, 53601, 53635 and 53648. The County is restricted to invest time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. The County investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

NOTE 2: DEPOSITS AND INVESTMENTS

The county investment pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Board of Supervisors set forth the various investment policies that the Country Treasurer follow. The method used to determine the value of the participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

The pool sponsor's annual financial report may be obtained from the Auditor-Controller County of Orange, 12 Civic Center Plaza, Room 200, Santa Ana, CA 92702.

Investments

Policies
Under provisions of California Government Code Sections 16430, 53601 and 53602 (and District Board Policy Section 3102), the District may invest in the types of investments shown herein. The District did not violate any provisions of the California Government Code or District Board policy during the year ended June 30, 2017.

- State of California Local Agency Investment Fund (LAIF)
- County Treasurer's Investment Pools
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Fully insured and collateralized credit union accounts

The District maintains investments with the State of California Local Agency Investment Fund (LAIF) amounting to $26,393,531 as of June 30, 2017. LAIF pools these funds with other governmental agencies and invests in various investment vehicles. These pooled funds approximate fair value. Regulatory oversight is provided by the State Pooled Money Investment Board and the Local Investment Advisory Board. LAIF is not subject to categorization to indicate the level of custodial credit risk assumed by the District at year end.

Investments with fiscal agent are held in the California Public Entity Pension Stabilization Trust (the PST). The PST was established to help California public entities stabilize the funding of their pension benefit liabilities be creating a secure vehicle to hold assets pending their contribution to a pension plan in satisfaction of their funding obligation. The PST is intended to qualify as a trust arrangement that is tax exempt under applicable guidance and procedures under Section 115 of the Internal Revenue Code.

NOTE 2: DEPOSITS AND INVESTMENTS

Investments and investments with fiscal agent at June 30, 2017 are presented below:

Investment	Maturities	Fair Value	Standard & Poor's Rating
Mutual Funds - Fixed Income	Not applicable	$ 26,672,038	Not Rated
LAIF	Not applicable	26,314,324	Not Rated
Total		$ 52,986,362	

Investment Valuation

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at June 30, 2017 are presented below:

		Fair Value Measurements Using		
Investment	Costs	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mutual Funds - Fixed Income	$ 26,672,038	$ 26,672,038	$ -	$ -
Total	$ 26,672,038	$ 26,672,038	$ -	$ -

LAIF is reported at amortized cost and is not required to be classified above.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that one insurer of an investment will not fulfill its obligations. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. The District follows Government Code to reduce exposure to investment credit risk. Information about the District's investment ratings is provided above (on the previous page.)

NOTE 2: DEPOSITS AND INVESTMENTS

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. The District did not have any holdings in one issuer in excess of 5%.

Custodial Credit Risk

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017 consists of the following:

Accounts Receivable	June 30, 2017
Federal and state	$ 4,938,686
Property tax	3,260,180
Miscellaneous	1,341,327
Total accounts receivable	$ 9,540,193

NOTE 4: INTERFUND TRANSACTIONS

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when the interfund transfer is transacted after the close of the fiscal year. Interfund activity within the government funds has been eliminated in the basic financial statements.

NOTE 5: CAPITAL ASSETS AND DEPRECIATION

The following provides a summary of changes in capital assets for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$ 42,262,154	$ -	$ -	$ 42,262,154
Construction in progress	141,607,030	24,899,951	113,768,512	52,738,469
Total capital assets not being depreciated	183,869,184	24,899,951	113,768,512	95,000,623
Capital assets being depreciated:				
Site improvements	107,125,848	3,782,574	-	110,908,422
Buildings	206,796,756	93,405,184	-	300,201,940
Equipment	27,123,313	18,507,113	-	45,630,426
Total capital assets being depreciated	341,045,917	115,694,871	-	456,740,788
Less accumulated depreciation for:				
Site improvements	(69,992,433)	(7,056,216)	-	(77,048,649)
Buildings	(76,997,144)	(5,772,289)	-	(82,769,433)
Equipment	(19,361,852)	(5,544,420)	-	(24,906,272)
Total accumulated depreciation	(166,351,429)	(18,372,925)	-	(184,724,354)
Depreciable assets, net	174,694,488	97,321,946	-	272,016,434
Governmental activities capital assets, net	$ 358,563,672	$ 122,221,897	$ 113,768,512	$ 367,017,057

NOTE 6: LEASES

The District has entered into various operating leases for land, buildings, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2018	$ 168,404
2019	174,298
2020	180,398
2021	83,984
Total	$ 607,084

Current year expenditures for operating leases is approximately $162,700. The District will receive no sublease rental nor pay any contingent rentals for this equipment.

The District also receives $2,494,435 annually as rent for the land that the Promenade Apartments is located on. This agreement expires on September 1, 2075.

NOTE 7: RENTAL INCOME

The District holds a ground lease on a 23-acre site improved with a 400-unit apartment complex built in 1987 that is located adjacent to Saddleback College. The original term of the ground lease ran through September 2040. In July 2016, the District negotiated an amendment and restatement of the ground lease providing funds for renovations and improvements to the property, and extending the lease term from September 2040 to September 2075. Annual lease payments shall be adjusted annually based upon the percentage change for the preceding calendar year as contained in the "Consumer Price Index for All Urban Consumers Los Angeles-Anaheim-Riverside Areas", published by the United States Department of Labor, Bureau of Labor Statistics, provided however, that there shall be a minimum increase of three percent over the preceding annual rent and not more than six percent over such preceding year. Minimum annual lease receipts for the next five years and afterward are as follows:

Year Ending June 30,	Lease Income
2018	$ 2,725,736
2019	2,807,509
2020	2,819,734
2021	2,978,486
2022	3,067,840
2023-2027	16,776,209
2028-2032	19,448,224
2033-2037	22,545,822
2038-2042	26,136,787
2042-2047	30,299,699
2048-2052	35,125,656
2053-2057	40,720,262
2058-2062	47,205,944
2063-2067	54,724,627
2068-2072	63,440,842
2073-2075	42,816,994
Total	$ 413,640,371

NOTE 8: SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

The District has a Supplemental Employee Retirement Plans for classified, faculty and management employees. The accumulated future liability for the District at June 30, 2017 is $9,275,763.

In November 2016, the Board of Trustees approved the implementation of the District's Supplemental Employee Retirement Plan for classified, faculty, and management employees.

A total of 77 classified, 9 faculty and 30 management employees are participating in the plan.

NOTE 8: SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

The total cost to the District is approximately $9.25 million. The District will pay benefits of $1.9 annually through 2021. The liability of $9,275,763 has been reflected in these financial statements in the long term liabilities.

NOTE 9: EMPLOYEE RETIREMENT PLANS

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

As of June 30, 2017, the District's proportionate share of the net pension liabilities, pension expense, and deferred inflows of resources and deferred outflows of resources for each of the retirement plans is as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflows of Resources	Proportionate Share of Deferred Inflows of Resources	Proportionate Share of Pension Expense
CalSTRS - STRP	$ 105,145,300	$ 18,543,229	$ 8,298,847	$ 14,920,808
CalPERS - Schools Pool Plan	75,662,487	22,732,054	2,273,207	10,073,745
Total	$ 180,807,787	$ 41,275,283	$ 10,572,054	$ 24,994,553

The details of each plan are as follows:

<u>California State Teachers' Retirement System (CalSTRS)</u>

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law.

Benefits Provided

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

NOTE 9: EMPLOYEE RETIREMENT PLANS

benefit is equal to 2.0 percent of final compensation for each year of credited service. The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

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

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

Provisions and Benefits	CalSTRS-STRP Defined Benefit Program and Supplement Program	
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0%-2.4%	2.0%-2.4%
Required employee contribution rate	10.25%	9.21%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	12.58%	12.58%

Contributions

Required member, District and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. The contribution rates for each plan for the year ended June 30, 2017 are presented above and the total District contributions were $9,479,208.

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

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

NOTE 9: EMPLOYEE RETIREMENT PLANS

Proportionate Share of Net Pension Liability	Balance June 30, 2017
District proportionate share of net pension liability	$ 105,145,300
State's proportionate share of the net pension liability associated with the District	59,866,156
Total	$ 165,011,456

The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2016, the District's proportion was 0.13%.

For the year ended June 30, 2017, the District recognized pension expense of $14,920,808 and revenue of $3,972,220 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:

Pension Deferred Outflows and Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 9,479,208	$ -
Difference between expected and actual experience	705,021	5,733,947
Difference in proportion		2,564,900
Net differences between projected and actual earnings on plan investments	8,359,000	-
Total	$ 18,543,229	$ 8,298,847

The deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The remaining amounts will be recognized to pension expense as follows:

Year Ending June 30,	Amortization
2018	$ 632,981
2019	632,981
2020	632,981
2021	632,981
2022	(1,456,771)
2023	(309,979)
Total	$ 765,174

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to

NOTE 9: EMPLOYEE RETIREMENT PLANS

June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015 used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions	
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.60%
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%

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

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

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

NOTE 9: EMPLOYEE RETIREMENT PLANS

Discount Rate

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

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

Discount rate	Net Pension Liability
1% decrease (6.60%)	$ 151,327,800
Current discount rate (7.60%)	105,145,300
1% increase (8.60%)	66,788,800

Plan Fiduciary Net Position

Detailed information about the STRP's plan fiduciary net position is available in a separate comprehensive annual financial report for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Schools Pool Plan under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law.

NOTE 9: EMPLOYEE RETIREMENT PLANS

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

Provisions and Benefits	CalPERS-Schools Pool Plan	
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1%-2.5%	1.0%-2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	13.888%	13.888%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017 are as presented above and the total District contributions were $6,963,468.

NOTE 9: EMPLOYEE RETIREMENT PLANS

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $75,662,487. The net pension liability was measured as of June 30, 2016. The total pension liability for CalPERS 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 District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District's proportion was 0.3831%.

For the year ended June 30, 2017, the District recognized pension expense of $10,073,745. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pension Deferred Outflows and Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 6,963,468	$ -
Difference between expected and actual experience	3,254,212	
Changes of assumptions		2,273,207
Difference in proportion	773,989	
Net differences between projected and actual earnings on plan investments	11,740,385	
Total	$ 22,732,054	$ 2,273,207

The deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The remaining amounts will be recognized to pension expense as follows:

Year Ending June 30,	Amortization
2018	$ 2,237,983
2019	2,242,024
2020	5,951,235
2021	3,064,137
Total	$ 13,495,379

Actuarial Methods and Assumptions

Total pension liability for the Schools Pool Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total

NOTE 9: EMPLOYEE RETIREMENT PLANS

pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015 used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions	
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.65%
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	3.00%

Mortality assumptions are based on CalPERS specific membership data and mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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

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

NOTE 9: EMPLOYEE RETIREMENT PLANS

Discount Rate

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

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	$ 112,888,852
Current discount rate (7.65%)	75,662,487
1% increase (8.65%)	44,664,212

Plan Fiduciary Net Position

Detailed information about CalPERS Schools Pool Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

Plan Description and Eligibility

The District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health, dental and vision benefits to eligible retirees and their dependents in accordance with provisions established through negotiations between the District and the bargaining unions representing employees. Benefit provisions are renegotiated each three-year bargaining period. The District reports the financial activity of the plan as a trust fund.

The District currently provides retiree and dependent health benefits to eligible academic, classified, classified leadership and administrators until retirees reach age 65. Eligibility requirements vary by employee classification. All participants must have a minimum service of 10 years and minimum required hours of 75% FTE. In addition, classified employees must be at least 60 years of age; and classified leadership, administrators and academic employees must retire under PERS or STRS. The District also pays for retiree only Medicare supplemental coverage for academic, classified leadership and administrative retirees beyond age 65.

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

Participant Type:	Number of Participants
Inactive participants currently receiving benefits	313
Inactive participants entitled to but not yet receiving benefit payments	-
Active employees	938
Total	1,251

Funding Policy

The contribution requirements are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an annual adjustment to fully fund the actuarially required contribution. The District currently funds 100% of the pay-as-you-go premiums for covered employees. For the year ended June 30, 2017, the District contributed $11,116,750 to the plan including the implicit rate subsidy.

Net OPEB Liability (Asset)

The following table shows the components of the net OPEB liability (asset) of the District:

		Balance June 30, 2017
Total OPEB liability	$	105,808,331
Plan fiduciary net position		110,063,884
District's net OPEB liability (asset)	$	(4,255,553)
Plan fiduciary net position as a percentage of the total OPEB liability (asset)		104%

Investments

The Plan's policy for allocation of invested assets is established and may be amended by the Retirement Board of Authority through a majority vote. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of specific asset classes. Assets held in the Plan may be invested in accordance with California Government Code Sections 53600 through 53622. The investment policy has a long-term focus. It discourages both major shifts of asset class allocations over a short time span and, except for liquidity purposes, the use of cash equivalents. The Retirement Board of Authority has established a target net return of 6%. There is no established asset allocation policy.

At June 30, 2017, all Plan investments were in mutual funds. The Plan held no investments in any one organization that represented 5% or more of fiduciary net position.

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was not available.

Investment Valuation

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan's investments' fair value measurements at June 30, 2017 are presented below:

		Fair Value Measurements Using		
Investment	Costs	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mutual Fund - Fixed Income	$ 54,317,261	$ 54,317,261	$ -	$ -
Mutual Fund - Domestic Equity	29,586,209	29,586,209	-	-
Mutual Fund - International Equity	18,534,856	18,534,856	-	-
Mutual Fund - Real Estate	7,625,558	7,625,558	-	-
Total	$ 110,063,884	$ 110,063,884	$ -	$ -

Actuarial Methods and Assumptions

The District's net OPEB liability (asset) was measured as of June 30, 2017, and the total OPEB liability (asset) used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017. Liabilities in this report were calculated as of the valuation date and rolled forward to the measurement date using standard actuarial roll-forward techniques.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Methods and Assumptions	
Valuation Date	January 1, 2017
Measurement Date	June 30, 2017
Inflation	2.75%
Salary Increases	3%
Investment Rate of Return	6.0%
Health Care Trend Rate	6.5% decreasing to 4.0% in 2023

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

Mortality rates were based on the rates used by CalPERS and the 2009 rates used by STRS for the pension valuations.

The long-term expected rate of return on 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of the Plan's investment policy) are as follows:

Asset Class	Asset Allocation	Long-term Expected Real Rate of Return
Fixed income	49%	1.75%
Domestic equities	27%	4.25%
International equities	17%	5.25%
Real estate	7%	4.50%
Cash/liquidity	0%	0.00%

The discount rate used to measure the total OPEB liability was 6.0 percent. Based on the District's funding practice to fund at least the actuarially determined contribution including the normal cost for all future actives, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Since the most recent GASB 45 valuation, the following changes have been made:

- The discount rate and expected rate of return on assets was changed from 7.0% to 6.0%
- The initial healthcare trend rate changed from 6.0% to 6.5%

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

Changes in the Net OPEB Liability (Asset)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2016	$ 99,594,587	$ 92,851,453	$ 6,743,134
Changes for the year:			
Service cost	4,353,903		4,353,903
Interest	6,099,713		6,099,713
Employer contributions		11,116,750	(11,116,750)
Net investment income		10,662,951	(10,662,951)
Benefit payments	(4,239,872)	(4,239,872)	-
Administrative expenses		(327,398)	327,398
Net changes	6,213,744	17,212,431	(10,998,687)
Balances at June 30, 2017	$ 105,808,331	$ 110,063,884	$ (4,255,553)

The following presents the District's net OPEB liability calculated using the discount rate of 6.0 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.0 percent) or 1-percentage-point higher (7.0 percent) than the current rate:

Discount rate	Net OPEB Liability (Asset)
1% decrease (5.0%)	$ 8,703,326
Current discount rate (6.0%)	(4,255,553)
1% increase (7.0%)	(15,124,799)

The following presents the District's net OPEB liability calculated using the current healthcare cost trend rate of 6.5 percent decreasing to 4.0 percent, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent decreasing to 3.0 percent) or 1-percentage-point higher (7.5 percent decreasing to 5.0 percent) than the current rate:

Healthcare trend rate	Net OPEB Liability (Asset)
1% decrease (5.5% decreasing to 3.0%)	$ (16,970,034)
Current healthcare trend rate (6.5 % decreasing to 4.0%)	(4,255,553)
1% increase (7.5% decreasing to 5.0%)	11,293,370

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

OPEB Expense

For the year ended June 30, 2017, the District recognized OPEB expense of $4,239,872.

NOTE 11: LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2017 is shown below.

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amount Due in One Year
Compensated absences	$ 4,014,127	$ 1,137,748	$ -	$ 5,151,875	$ 640,606
Claims liability	321,673	138,104	-	459,777	-
Early retirement incentive	-	9,275,763	-	9,275,763	1,855,153
Net pension liability	142,345,492	38,462,295	-	180,807,787	-
Total	$ 146,681,292	$ 49,013,910	$ -	$ 195,695,202	$ 2,495,759

Liabilities are liquidated by the General Fund for governmental activities, including compensated absences, net pension liability, and supplemental employee retirement plan.

NOTE 12: JOINT POWERS AGREEMENTS

The District participates in five joint powers agreement (JPA) entities, the Statewide Association of Community Colleges (SWACC), the Schools Association for Excess Risk (SAFER), the Protected Insurance Programs for Schools (PIPS), the Self-Insured Schools of California (SISC), and the Alameda County School Insurance Group (ACSIG).

SWACC provides liability and property insurance for its member colleges. SWACC's membership consists of two joint power authority (JPA) members (which represent 21 districts) and 25 individual member districts for a total of 46 community college districts. A full Board of Directors comprised of one representative from each member governs SWACC. Each Board Member is allocated a number of votes determined by a weighted system that is based on the lottery full-time equivalent students (FTES) of each member. The Board elects from its members a President, Vice-President, Secretary and Treasurer. Each member shares surpluses and deficits proportionately to its participation in SWACC. The relationships between the District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes.

SAFER arranges for and provides a self-funded or additional insurance for excess liability fund for members, elected alternates, and two ex-officio members. The board controls the operations of SAFER, including selection of management and approval of operating budgets, independent

NOTE 12: JOINT POWERS AGREEMENTS

of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SAFER's board of directors and shares surpluses and deficits proportionately to its participation in SAFER.

PIPS provides workers' compensation reinsurance protection to its membership for public schools and community colleges throughout California. SISC, Self-Insured Schools of California, is a Joint Powers Agreement administered by the Kern County Superintendent of Schools Office. SISC's focus is on pooling resources to provide schools with a more stable long term health insurance solution rather than purchasing from commercial carriers. South Orange County College District has been a member since August 2003.

South Orange County Community College District's dental and vision coverage is administered through ACSIG, Alameda County School Insurance Group, which the District joined in July 2003. The program offers both a fixed rate as well as a self-funded option for individual school districts or school JPAs throughout California. There are presently over 300 school districts covering 70,000 employees participating in the program. The large size of the group allows ACSIG to enjoy a very low administration rate with Delta Dental which results in reduced costs for all members.

Condensed financial information for the year ended June 30, 2017 is as follows:

JPA Condensed Financial Information	SWACC 6/30/2016 (Audited)	SAFER 6/30/16 (Audited)	PIPS 6/30/16 (Audited)	SISC 9/30/16 (Audited)	ACSIG 6/30/16 (Audited)
Total assets	$ 53,650,572	$ 23,297,652	$ 117,633,714	$ 430,046,455	$ 38,414,304
Total liabilities	25,243,178	21,155,886	104,282,740	167,458,724	30,685,060
Fund balance	28,407,394	2,141,766	13,350,974	262,587,731	7,729,244
Total revenues	18,776,551	56,004,631	265,453,036	1,902,860,920	152,251,135
Total expenditures	20,885,850	55,390,780	262,540,194	1,837,098,521	145,393,809

NOTE 13: FUNCTIONAL EXPENSE

Operating expenses are reported by natural classification in the statement of revenues, expenses and change in net position. A schedule of expenses by function is shown below:

Functional Expense	Instructional Salaries and Benefits	Non-Instructional Salaries and Benefits	Supplies, materials, and other operating expenses and services	Financial Aid	Depreciation	Total
Instructional activities	$ 96,773,263	$ 6,017,081	$ 7,361,724	$	$	$ 110,152,068
Academic support	1,289,071	14,697,638	923,083			16,909,792
Student services		27,793,364	2,701,962			30,495,326
Operation and maintenance of plant		11,237,547	8,376,230			19,613,777
Instructional support services		32,034,829	7,396,267			39,431,096
Community services and economic						-
development	405,592	3,780,066	1,849,694			6,035,352
Ancillary services and auxiliary operations		7,009,453	1,844,550			8,854,003
Physical property and related acquisitions		3,387,349	10,864,795			14,252,144
Transfers, student aid and other outgo			11,386,898	28,960,083		40,346,981
Depreciation expense					18,372,925	18,372,925
Total	$ 98,467,926	$ 105,957,327	$ 52,705,203	$ 28,960,083	$ 18,372,925	$ 304,463,464

NOTE 14: SELF-INSURANCE

The District is exposed to various risks of loss related to torts, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical claims. The District is self-insured for coverage up to a maximum of $25,000 for each general liability claim and $5,000 for each property damage claim. In 1995, The District became fully insured for workers' compensation benefits. The ending claims liabilities balance for workers' compensation at June 30, 2017, represents estimated liabilities incurred prior to 1995, both reported and unreported, which are actuarially determined. The District participates in JPAs to provide excess insurance coverage above the self-insured retention level for workers' compensation and property and liability claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

At June, 30, 2017, the District accrued the claims liability in accordance with GASB standards which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The present value of the liability, estimated at $459,777, is included in accrued liabilities.

NOTE 14: SELF-INSURANCE

Changes in the reported liability are shown herein:

Reported Liability	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Worker's compensation	$ -	$ -	$ -	$ -
Property and liability	321,673	138,104	-	459,777

NOTE 15: CUMULATIVE EFFECT OF ACCOUNTING CHANGES AND RESTATEMENT TO BEGINNING NET POSITION

The beginning net position of the basic financial statements has been restated by a reduction of $6,558,777 in the governmental funds to recognize the beginning balance of the OPEB liability resulting from the implementation of GASB Statements No. 74 and No. 75.

In 2015-16, the Pension Stabilization Trust Fund was recognized in the fiduciary financial statements. In further review of GASB Statement No. 84, this fund doesn't meet the criteria to be considered a fiduciary fund. The beginning net position of the basic financial statements has be restated by an increase of $14,643,601 in the government funds. The cumulative effect of these changes is reported in the statement of revenues, expenses and changes in net position of $8,084,824.

NOTE 16: COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE 16: COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of June 30, 2017, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately $72.7 million. Projects will be funded through state funds and general funds.

NOTE 17: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2017, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

Statement No. 81 – *Irrevocable Split-Interest Agreements*

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The statement is effective for the fiscal year 2017-18.

Statement No. 83 – *Certain Asset Retirement Obligations*

This statement addresses accounting and financial reporting for certain asset retirement obligations when a legally enforceable liability is associated with the retirement of a tangible capital asset. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources. The statement is effective for the fiscal year 2018-19.

Statement No. 85 – *Omnibus 2017*

The objective of the statement is to address practice issues that have been identified during implementation and application of certain GASB statements. Specific topics addressed in this statement are related to blended component units, goodwill, fair value measurement and application, and postemployment benefits (OPEB). The statement is effective for the fiscal year 2017-18.

NOTE 17: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

Statement No. 86 – *Certain Debt Extinguishment Issues*

The objective of the statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial report for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is in-substance defeased. The statement is effective for the fiscal year 2017-18.

Statement No. 87 – *Leases*

The objective of the statement is to improve the accounting and financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Inflows of resources or outflows of resources will be recognized based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The statement is effective for the fiscal year 2020-21.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

California State Teachers' Retirement System - State Teachers' Retirement Plan	2015	2016	2017
District's proportion of the net pension liability (assets)	0.1220%	0.1290%	0.1300%
District's proportionate share of the net pension liability (asset)	$ 71,293,140	$ 86,772,244	$ 105,145,300
State's proportionate share of the net pension liability (asset) associated with the District	43,375,206	45,892,828	59,866,156
Total	$ 114,668,346	$ 132,665,072	$ 165,011,456
District's covered payroll	$ 63,923,000	$ 59,388,000	$ 66,927,000
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	111.53%	146.11%	157.10%
Plan fiduciary net position as a percentage of the total pension liability	76.50%	76.50%	70.04%

California Public Employees' Retirement System - Schools Pool Plan	2015	2016	2017
District's proportion of the net pension liability (assets)	0.3780%	0.3770%	0.3831%
District's proportionate share of the net pension liability (asset)	$ 42,912,204	$ 55,573,249	$ 75,662,487
District's covered payroll	$ 42,707,000	$ 41,766,000	$ 45,786,000
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	100.48%	133.06%	165.25%
Plan fiduciary net position as a percentage of the total pension liability	83.40%	83.40%	73.90%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

The amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

See the accompanying notes to the required supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2017

California State Teachers' Retirement System - State Teachers' Retirement Plan	2015	2016	2017
Contractually required contribution	$ 8,300,583	$ 7,181,247	$ 9,479,208
Contributions in relation to the contractually required contribution	8,300,583	7,181,247	9,479,208
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered payroll	$ 59,388,000	$ 66,927,000	$ 75,351,000
Contributions as a percentage of covered payroll	13.98%	10.73%	12.58%

California Public Employees' Retirement System - Schools Pool Plan	2015	2016	2017
Contractually required contribution	$ 4,916,269	$ 5,424,269	$ 6,963,468
Contributions in relation to the contractually required contribution	4,916,269	5,424,269	6,963,468
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered payroll	$ 41,766,000	$ 45,786,000	$ 50,140,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
For the Fiscal Year Ended June 30, 2017

Total OPEB Liability	2017
Service Cost	$ 4,353,903
Interest	6,099,713
Benefit Payments	(4,239,872)
Net Change in Total OPEB Liability	6,213,744
Total OPEB Liability - beginning	99,594,587
Total OPEB Liability - ending (a)	$ 105,808,331

Plan Fiduciary Net Position	2017
Contributions - Employer	$ 11,116,750
Net Investment Income	10,662,951
Benefit Payments	(4,239,872)
Administrative Expense	(327,398)
Net Change in Plan Fiduciary Net Position	17,212,431
Plan Fiduciary Net Position - beginning	92,851,453
Plan Fiduciary Net Position - ending (b)	$ 110,063,884
Net OPEB Liability (Asset) - ending (a) - (b)	$ (4,255,553)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	104.02%
Covered-employee payroll	$ 89,360,000
Net OPEB liability (asset) as a percentage of covered-employee payroll	-4.76%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS EMPLOYER CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2017

OPEB Contributions	2017
Actuarially Determined Contribution (ADC)	$ 4,594,742
Contributions in relation to the ADC	6,390,000
Contribution deficiency (excess)	$ (1,795,258)
District's covered-employee payroll	$ 89,360,000
Contributions as a percentage of covered-employee payroll	7.15%

See the accompanying notes to the required supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS
MONEY-WEIGHTED RATE OF RETURN ON PLAN ASSETS
For the Fiscal Year Ended June 30, 2017

Year	Annual money-weighted rate of return, net of investment expense
2017	NA

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2017

NOTE 1: PURPOSE OF SCHEDULES

Schedules of District's Proportionate Share of the Net Pension Liability – CalSTRS-STRP and CalPERS-Schools Pool Plan

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

Schedules of District Contributions – CalSTRS-STRP and CalPERS-Schools Pool Plan

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

Schedule of Changes in the Net OPEB Liability and Related Ratios

The schedule is intended to show trends about the changes in the District's actuarially determined liability for postemployment benefits other than pensions.

Benefit changes – None

Changes of Assumptions - The discount rate and expected rate of return on assets was changed from 7.0% to 6.0% and the initial healthcare trend rate changed from 6.0% to 6.5%

Schedule of Postemployment Healthcare Benefits Employer Contributions

The schedule is intended to show trends about the amounts contributed in relation to the actuarially determined contribution.

Actuarially determined contribution rates are calculated as of January 1, 18 months prior to the end of the fiscal year in which contributions are reported.

Methods of assumptions used to determine contribution rates are:

Actuarial Cost Method	Entry age normal
Inflation	2.75%
Salary Increases	3%
Investment Rate of Return	6.0%
Health Care Trend Rate	6.5% decreasing to 4.0% in 2023

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2017

NOTE 1: PURPOSE OF SCHEDULES

Mortality rates were based on the rates used by CalPERS and the 2009 rates used by STRS for the pension valuations.

Schedule of Postemployment Healthcare Benefits Money-Weighted Rate of Return on Plan Assets

The schedule is intended to show trends about the rate of return on plan assets.

SUPPLEMENTARY INFORMATION

HISTORY AND ORGANIZATION
For the Fiscal Year Ended June 30, 2017

The Board of Trustees and the District Administrators for the fiscal year ended June 30, 2017 were as follows:

BOARD OF TRUSTEES

Member	Office	Term Expires
Mr. Timothy Jemal	President	2020
Dr. James R. Wright	Vice President	2020
Mr. David B. Lang	Clerk	2020
Mr. T.J. Prendergast, III	Member	2018
Ms. Marcia Milchiker	Member	2018
Ms. Barbara J. Jay	Member	2020
Ms. Terri Whitt	Member	2018
Mr. Jordan J. Larson	Student Member	2018

DISTRICT ADMINISTRATORS

Dr. Debra L. Fitzsimons	Interim Chancellor
Dr. Tod A. Burnett	President, Saddleback College
Dr. Glenn R. Roquemore	President, Irvine Valley College
Ms. Kim McCord	Interim Vice Chancellor, Business Services
Dr. Robert S. Bramucci	Vice Chancellor, Technology and Learning Services
Vacant	Vice Chancellor, Human Resources and Employer/Employee Relations

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2017

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
United States Department of Education			
Direct:			
Student Financial Aid Cluster:			
Federal Work Study	84.033	(1)	$ 385,395
Pell Grant	84.063	(1)	21,973,697
Financial Aid Administrative Allowance	84.063	(1)	102,927
Federal Direct Student Loans	84.268	(1)	2,786,761
Supplemental Education Opportunity Grant	84.007	(1)	438,886
Subtotal: Student Financial Aid			25,687,666
Asian American and Native Pacific Islander Serving Institutions Program (AANAPISI)	84.031	(1)	429,905
Pass-Through Program From California Department of Education:			
Vocational Technical Education Act (VTEA):			
Tech Prep VTEA	84.048	(1)	711,095
Title I-C VTEA	84.048	(1)	87,496
Subtotal: VTEA			798,591
Total: United States Department of Education			798,591
United States Department of Health and Human Services			
Direct:			
HRSA Behavioral Health	93.243	(1)	29,700
Pass-Through Program From California Department of Education:			
Temporary Assistance for Needy Families (TANF)	93.558	6780-111-0001	86,900
Total: United States Department of Health and Human Services			116,600
United States Department of Labor			
Direct:			
Trade Adjustment Assistance Community College and Caeer Training	17.282	(1)	625,206
Passed through the County of Orange:			
WIOA - Youth Adult Career Program	17.259	(1)	159,765
Passed through the City of Santa Ana:			
WIA - H-1B Bridge to Engineering	17.258	(1)	114,047
Total: United States Department of Labor			899,018

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2017

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
National Science Foundation (NSF)			
Direct:			
NSF Photonics Planning	47.076	(1)	50,349
NSF STEM Core Initiative	47.076	(1)	27,189
Subtotal: NSF Direct Program			77,538
Passed through the Center for Occupational Research and Development:			
Op-Tec: The National Center for Optics and Photonics Education	47.076	(1)	33,870
Passed through the University of California, Irvine:			
NSF iUse	47.076	(1)	117,015
Passed through the American Association of Community Colleges			
NSF MentorLinks	47.076	(1)	6,192
Subtotal: NSF Passed Through			157,077
Total: NSF			234,615
Total Federal Programs			$ 28,166,395

(1) Pass-Through Entity Identifying Number not readily available or not applicable

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
For the Fiscal Year Ended June 30, 2017

	Program Revenues						Total
Program Name	Cash Received	Prior Year Unearned Revenue	Accounts Receivable	Unearned Revenue	Accounts Payable	Total	Program Expenditures
State Categorical Aid Programs:							
Adult Education Block Grant (AEBG)	$ 3,135,753	$ 1,130,526	$ -	$ 3,200,577	$ -	$ 1,065,702	$ 1,065,702
Adult Education AEBG Fiscal Agent	4,579,170			18,466		4,560,704	4,560,704
Adult Education Block Grant - Data		354,211		337,080		17,131	17,131
Basic Skills	431,865	375,004		401,604		405,265	405,265
Board Financial Assistance Program - Student Financial Aid Administration (BFAP - SFAA)	888,906					888,906	888,906
CalWORKS	439,823					439,823	439,823
Cooperative Agencies Resources for Education (CARE)	138,768					138,768	138,768
Disabled Student Program and Services (DSPS)	2,820,921					2,820,921	2,820,921
Extended Opportunities Program and Services (EOPS)	1,605,573					1,605,573	1,605,573
Full Time Student Success Grant	405,180	140,171	16,005			561,356	561,356
Physical Plant and Instructional Equipment	3,858,602	3,807,455		6,156,078		1,509,979	1,509,979
Strong Workforce Local Allocation	2,486,197			2,131,300		354,897	354,897
Student Success - (Equity)	2,045,828	1,321,289		872,607		2,494,510	2,494,510
Student Success and Support Program (SSSP) - Credit	5,789,318	1,427,183		956,908		6,259,593	6,259,593
Student Success and Support Program (SSSP) - Non-Credit	133,848	37,537				171,385	171,385
Total State Categorical Aid Programs	$ 28,759,752	$ 8,593,376	$ 16,005	$ 14,074,620	$ -	$ 23,294,513	$ 23,294,513

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2017

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2016 only)			
1. Noncredit[1]	344.57	-	344.57
2. Credit[1]	3,458.14	-	3,458.14
B. Summer Intersession (Summer 2017 - Prior to July 1, 2017			
1. Noncredit[1]	0.90	-	0.90
2. Credit[1]	17.01	-	17.01
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,692.92	-	14,692.92
(b) Daily Census Contact Hours	1,035.25	-	1,035.25
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit[1]	2,305.28	-	2,305.28
(b) Credit[1]	1,075.64	-	1,075.64
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,320.16	-	2,320.16
(b) Daily Census Contact Hours	2,107.25	-	2,107.25
(c) Noncredit Independent Study/Distance Education Courses	8.32	-	8.32
D. Total FTES	27,365.44	-	27,365.44
Supplemental Information (subset of above information)			
E. In-service Training Courses (FTES)	-	-	-
H. Basic Skills courses and Immigrant Education			
(a) Noncredit[1]	995.93	-	995.93
(b) Credit[1]	1,808.10	-	1,808.10
CCFS 320 Addendum			
CDCP Noncredit FTES	-	-	-
Centers FTES			
(a) Noncredit[1]	-	-	-
(b) Credit[1]	-	-	-

1Including Career Development and College Preparation (CDCP) FTES

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

The audit resulted in no adjustments to the fund balances reported on the June 30, 2017 Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles. In accordance with Governmental Accounting Standards Board Statements No. 34 and No. 35, the financial statements have been prepared under the full accrual basis of accounting which requires that revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Additional entries were made to comply with the governmental reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

A reconciliation between the fund balances reported on the June 30, 2017 Annual Financial and Budget Report (CCFS-311), based upon the modified accrual basis of accounting, and total net position recorded on the full accrual basis of accounting is shown below and on the following page:

Unrestricted Fund Balance	$ 55,893,810
Restricted Fund Balance	9,765,926
Capital Outlay Funds Balance	231,341,460
Self Insurance Fund Balance	2,077,907
Retiree Benefit Fund Balance	1,357,989
Pension Stability Trust Fund Balance	26,095,940
All Other Funds	902,935
Total fund balances as reported on the Annual Financial and Budget Report (CCFS-311)	$ 327,435,967

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Total fund balances as reported on the Annual Financial and Budget Report (CCFS-311)	$ 327,435,967
Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets, net of accumulated depreciation are added to total net assets.	367,017,057
Deferred outflows associated with pension costs result from pension contributions made during the fiscal year and from actuarially determined adjustments. These amounts will be recognized as a reduction of the net pension liability or amortized to pension expense, as applicable, in subsequent periods.	41,275,283
Compensated absences and load banking are not due and payable in the current period and therefore are not reported in the governmental funds. The short term portion of compensated absences and load banking of $640,624 is already recorded in the General Fund.	(4,511,251)
The supplemental employee retirement plan is not due and payable in the current period and therefore are not reported in the government funds.	(9,275,763)
The liability of employers and nonemployers contributing to employees for benefits provided through a defined benefit pension plan is recorded as net pension liabilities.	(180,807,787)
Deferred inflows associated with pension costs represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources results from the difference between the expended and actual experience, the difference in proportion and changes in assumptions.These amounts are deferred deferred and amortized.	(10,572,054)
Amounts reserved for other post employment retirement plans in excess of annual required contributions is reported total net position in the governmental funds. These amounts are recognized as assets which will apply against future required contributions.	4,255,553
Total net position	$ 534,817,005

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF 50 PERCENT LAW CALCULATION
For the Fiscal Year Ended June 30, 2017

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional Salaries - Contract or Regular	1100	35,630,369		35,630,369	35,630,369		35,630,369
Instructional Salaries - Other	1300	30,090,862		30,090,862	30,090,862		30,090,862
Total Instructional Salaries		65,721,231	-	65,721,231	65,721,231	-	65,721,231
Non-Instructional Salaries - Contract or Regular	1200			-	11,489,585		11,489,585
Non-Instructional Salaries - Other	1400			-	3,950,514		3,950,514
Total Non-Instructional Salaries		-	-	-	15,440,099	-	15,440,099
Total Academic Salaries		65,721,231	-	65,721,231	81,161,330	-	81,161,330
Classified Salaries							
Non-Instructional Salaries - Regular Status	2100			-	30,631,319		30,631,319
Non-Instructional Salaries - Other	2300			-	2,444,304		2,444,304
Total Non-Instructional Salaries		-	-	-	33,075,623	-	33,075,623
Instructional Aides - Regular Status	2200	3,516,249		3,516,249	3,516,249		3,516,249
Instructional Aides - Other	2400	1,708,529		1,708,529	1,708,529		1,708,529
Total Instructional Aides		5,224,778	-	5,224,778	5,224,778		5,224,778
Total Classified Salaries		5,224,778	-	5,224,778	38,300,401	-	38,300,401
Employee Benefits	3000	22,540,703		22,540,703	43,817,871		43,817,871
Supplies and Materials	4000			-	1,996,302		1,996,302
Other Operating Expenses	5000	757,360		757,360	14,749,135		14,749,135
Equipment Replacement	6420			-			-
Total Expenditures Prior to Exclusions		94,244,072	-	94,244,072	180,025,039	-	180,025,039
Exclusions							
Activities to Exclude							
Instructional Staff–Retirees' Benefits & Retirement Incentives	5900			-			-
Student Health Services Above Amount Collected	6441			-	185		185
Student Transportation	6491			-	429,878		429,878
Non-instructional Staff-Retirees' Benefits & Retirement Incentives	6740			-			-
Objects to Exclude							
Rents and Leases	5060			-	206,024		206,024
Lottery Expenditures							
Academic Salaries	1000			-			-
Classified Salaries	2000			-	191,403		191,403
Employee Benefits	3000			-	59,405		59,405
Software	4100			-			-
Books, Magazines, & Periodicals	4200			-			-
Instructional Supplies & Materials	4300			-			-
Noninstructional, Supplies & Materials	4400			-			-
Other Operating Expenses and Services	5000			-	3,948,878		3,948,878
Capital Outlay	6000			-			-
Library Books	6300			-			-
Equipment - Additional	6410			-			-
Equipment - Replacement	6420			-			-
Other Outgo	7000			-			-
Total Exclusions		-	-	-	4,835,773	-	4,835,773
Total for ECS 84362, 50% Law		94,244,072	-	94,244,072	175,189,266	-	175,189,266
Percent of CEE (Instructional Salary Cost/Total CEE)		53.80%	0%	53.80%	100%	0%	100%
50% of Current Expense of Education					87,594,633	-	87,594,633

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPOSITION 55 EDUCATION PROTECTION ACCOUNT EXPENDITURE REPORT
For the Fiscal Year Ended June 30, 2017

Activity Classification	Object Code				Unrestricted
EPA Proceeds:	8630				$ 2,542,188
Activity Classification	**Object Code**	**Salaries and Benefits (1000-3000)**	**Operating Expenses (4000-5000)**	**Capital Outlay (6000)**	**Total**
Instructional Activities	0100-5900	$ 2,542,188	$ -	$ -	$ 2,542,188
		-	-	-	-
Other Support Activities (list below)	6XXX	-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
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		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
Total Expenditures for EPA*		$ 2,542,188	$ -	$ -	2,542,188
Revenue less Expenditures					
*Total Expenditures for EPA may not include Administrator Salaries and Benefits or other administrative costs.					

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

	2018 (Budget)	2017	2016	2015
Total revenues	$ 349,975,326	282,233,521	$ 272,457,984	$ 234,251,184
Total expenditures	253,405,946	221,183,049	201,789,323	176,901,963
Total other sources and uses	69,721,342	54,731,550	66,317,806	46,595,792
Change in fund balance	26,848,038	6,318,922	4,350,855	10,753,429
Ending fund balance	$ 92,507,774	$ 65,659,736	$ 59,340,814	$ 54,989,959
Available reserve	$ 26,848,038	$ 38,623,055	$ 34,987,994	$ 25,111,855
Available reserve %	10.59%	17.46%	17.34%	14.20%
Full-time equivalent students	28,276	27,365	23,633	27,690
Total long term debt	$ 193,199,443	$ 195,695,202	$ 146,543,979	$ 119,801,675

IMPORTANT NOTES:

Available reserve balance is the amount designated for general reserve and any other remaining undesignated amounts in the General Fund. The 2018 budget reserve balance was estimated using the budgeted contingency reserve balances less other 2017 amounts reserved.

The 2018 budget is the Plan and Budget adopted by the Board of Trustees on June, 26, 2017

The California Community College Chancellor's Office has provided guidelines that recommend an ending fund balance of 3% of unrestricted expenditures as a minimum with a prudent ending fund balance being 5% of unrestricted expenditures. In addition, the District's Board policy requires a 10% unrestricted ending fund balance.

Long-term debt is reported for the District as a whole and includes debt related to all funds.

2015 amounts for state revenues and employee benefits have not been revised to include amounts for on-behalf payments.

Fiscal years 2015 and 2016 were audited by another firm.

See the accompanying notes to the supplementary information.

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal governmental for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District did not use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Schedule of State Financial Assistance – Grants

The Schedule of State Financial Assistance was prepared on the full accrual basis of accounting.

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

The Schedule of Workload Measures for State General Apportionment represents the basis of apportionment of the District's annual source of funding.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule reports any audit adjustments made to the fund balances reported on the June 30, 2017 Annual Financial and Budget Report (CCFS- 311). This schedule is prepared to show a reconciliation between the governmental fund balances reported on the June 30, 2017 Annual Financial and Budget Report (CCFS- 311), based upon the modified accrual basis of accounting, and total net position recorded on the full accrual basis of accounting is shown.

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2017

NOTE 1: PURPOSE OF SCHEDULES

Reconciliation of 50 Percent Law Calculation

This schedule reports any audit adjustments made to the 50 percent law calculation (Education Code Section 84362).

Proposition 55 Education Protection Account Expenditure Report

This schedule reports how funds received from the passage of Proposition 55 Education Protection Act were expended.

Schedule of General Fund Financial Trends and Analysis

This schedule is prepared to show financial trends of the General Fund over the past three fiscal years as well as the current year budget. This schedule is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

OTHER INDEPENDENT AUDITOR'S REPORT

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

Board of Trustees
South Orange County Community College District
Mission Viejo, California

We have audited, 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, the basic financial statements of South Orange County Community College District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 5, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
October 5, 2017

CliftonLarsonAllen LLP
CLAconnect.com

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

Board of Trustees
South Orange County Community College District
Mission Viejo, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

Purpose of this Report

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
October 5, 2017

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
South Orange County Community College District
Mission Viejo, California

We have audited the South Orange County Community College District's (the District) compliance with the types of compliance requirements described in the *2016-17 Contracted District Audit Manual,* published by the California Community Colleges Chancellor's Office for the year ended June 30, 2017. The District's state compliance requirements are identified in the table provided.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the types of compliance requirements referred to below.

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 *2016-17 Contracted District Audit Manual,* published by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

Compliance Requirements Tested

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

Section	Description	Procedures Performed
421	Salaries of Classroom Instructors (50 Percent Law)	Yes
423	Apportionment for Instructional Service Agreements/Contracts	Yes
424	State General Apportionment Funding System	Yes
425	Residency Determination for Credit Courses	Yes
426	Students Actively Enrolled	Yes
427	Dual Enrollment of K-12 Students in Community College Credit Courses	Yes
428	Student Equity	Yes
429	Student Success and Support Program (SSSP)	Yes
430	Scheduled Maintenance Program	Yes
431	Gann Limit Calculation	Yes
435	Open Enrollment	Yes
439	Proposition 39 Clean Energy Funds	Yes
440	Intersession Extension Program	Not applicable
475	Disabled Student Programs and Services (DSPS)	Yes
479	To Be Arranged Hours (TBA)	Yes
490	Proposition 1D State Bond Funded Projects	Not applicable
491	Proposition 55 Education Protection Account Funds	Yes

Opinion on State Compliance

In our opinion, the District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2017.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2016-17 Contracted District Audit Manual.* Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
October 5, 2017

FINDINGS AND QUESTIONED COSTS

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2017

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:				*Unmodified*
Internal control over financial reporting:				
Material weakness(es) identified?		*Yes*	X	*No*
Significant deficiency(ies) identified?		*Yes*	X	*None Reported*
Noncompliance material to financial statements noted?		*Yes*	X	*No*

Federal Awards

Internal control over major federal awards:				
Material weakness(es) identified?		*Yes*	X	*No*
Significant deficiency(ies) identified?		*Yes*	X	*None Reported*
Type of auditor's report issued on compliance for major federal programs:				*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		*Yes*	X	*No*

Identification of Major Federal Programs:

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

Dollar threshold used to distinguish between type A and type B programs:				$844,992
Auditee qualified as low-risk auditee?	X	*Yes*		*No*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO THE FINANCIAL STATEMENTS
June 30, 2017

There were no findings and questioned costs related to basic financial statements for the year ended June 30, 2017.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2017

FEDERAL AWARDS FINDINGS

There were no findings and questioned costs related to federal awards for June 30, 2017.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS
June 30, 2017

STATE COMPLIANCE FINDINGS

There were no findings and questioned costs related to state awards for the year ended June 30, 2017.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS RELATED TO FINANCIAL STATEMENTS, FEDERAL OR STATE AWARDS

June 30, 2017

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for the prior year.