HARTNELL COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

June 30, 2018 and 2017

HARTNELL COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hartnell Community College District
Salinas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and fiduciary activities of Hartnell Community College District, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Hartnell Community College District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Hartnell College Foundation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit and fiduciary activities of the Hartnell Community College District, as of June 30, 2018 and 2017, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting for Financial Reporting for Postemployment Benefits Other than Pensions". This Statement replaces the requirements of GASB Statements No. 45, "Accounting and Reporting for Employers Post Employment Benefits Other than Pensions", as amended, and GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." The implementation of Statement No. 75 resulted in a cumulative adjustment to the District's July 1, 2017 business-type activities net position by $3,206,724 because of the recognition of the net OPEB liability and related deferred outflows of resources. Note disclosures and required supplementary information requirements about OPEB are also discussed. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 11 and the Schedule of Changes in the District's Net Other Postemployment (OPEB) Liability, the Schedule of Money-Weighted Rate of Return of OPEB Plan Investments, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 59 to 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hartnell Community College District's basic financial statements. The accompanying schedule of expenditure of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018 on our consideration of Hartnell Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hartnell Community College District's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Sacramento, California
November 14, 2018

USING THIS ANNUAL REPORT B

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

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

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

FINANCIAL HIGHLIGHTS

- The District's primary funding source is based upon apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the 2017-18 fiscal year, second principal apportionment (P2) at June 2018 was 7,359 as compared to 2016-17 at 7,345 and 2015-16 at 7,294.

- During the 2017-18 fiscal year, the District provided over $13 million in financial aid to students. This aid was provided in the form of grants, scholarships, and tuition discounts funded through the Federal government, State Chancellor's Office, and local funding.

- The District began planning in 2017-18 fiscal year of projects funded from the first series of the $167 million in general obligations in November 2016. These include a Health Science and Nursing building, Soledad Education Center, North County Education Center, King City Education Center expansion and several Main Campus renovations and improvements. Proceeds from the first series of $70 million were received in September 2017.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

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

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

The planning of projects from Measure T began in 17-18. The District used unrestricted funds to pay for the Measure T projects in advance of the sales of the bonds in 17-18, thereby lowering the cash balances prior to receiving the bond proceeds in September 2017. Also, the total net position continues to decline significantly due to the required implementation of Governmental Accounting Standards Board Statement (GASB) No. 68. All public agencies that provide defined benefit pensions must recognize the long-term obligation for pension benefits as a liability. See Notes 9 and 10 of the Financial Statements for more detailed information.

HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2018

Net Position as of June 30, 2018

(Amounts in thousands)

ASSETS	2018	2017	2016
Current Assets			
Cash and investments	$ 20,280	$ 19,420	$ 18,505
Accounts receivable, new	4,196	4,413	3,587
Other current assets	674	766	110
Total Current Assets	25,150	24,599	22,202
Restricted cash and other non-current assets	82,548	9,384	14,730
OPEB asset	-	2,477	2,443
Capital Assets, net	159,102	163,015	163,311
Total Assets	$ 266,800	$ 199,475	$ 202,686
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows of resources-pensions	16,925	10,271	4,024
Deferred outflows of resources-OPEB	217		
Defered outlfows of resources loss on refunding	10,210	11,470	12,651
Total deferred outflows	27,352	21,741	16,675
Total assets and deferred outflows of resources	$ 294,152	$ 221,216	$ 219,361
LIABILITIES			
Current Liabilities			
Accounts payable, accrued liabilities and other current liabilities	$ 13,717	$ 14,330	$ 14,032
Current portion of long-term obligations	8,838	3,898	2,666
Total Current Liabilities	22,555	18,228	16,698
Long-Term Obligations	289,271	210,705	199,195
Total Liabilities	$ 311,826	$ 228,933	$ 215,893
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources-pensions	2,511	1,226	3,516
NET POSITON			
Net investment in capital assets	17,273	25,721	28,060
Restricted	15,968	9,191	9,515
Unrestricted	(53,426)	(43,855)	(37,623)
Total Net Position	(20,185)	(8,943)	(48)
Total Liabilities and Net Position	$ 294,152	$ 221,216	$ 219,361

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

Operating Results for the Year Ended June 30, 2018

(Amounts in thousands)

	2018	2017	2016
Operating Revenue			
Tuition and Fees	$ 2,375	$ 2,656	$ 2,454
Grants and Contracts	20,046	23,613	21,055
Sales and charges	785	791	761
Total Operating Revenues	23,206	27,060	24,270
Operating Expenses			
Salaries and benefits	52,353	48,503	47,279
Supplies, other operating expenses, and financial aid	27,801	29,602	29,348
Depreciation	7,814	7,750	6,919
Total Operating Expenses	87,968	85,855	83,546
Loss on Operations	(64,762)	(58,795)	(59,276)
Nonoperating Revenues and (Expenses)			
State apportionments	18,405	17,105	17,413
Property Taxes	23,463	22,133	21,726
State revenues	324	309	1,293
Pell grants	11,358	10,811	10,962
Interest income	1,059	347	210
Loss on disposal of assets	-	-	(816)
Other nonoperatig revenues and (expenses)	2,639	2,352	3,051
Total Nonoperating Revenue and (expenses)	57,248	53,057	53,839
Other Revenues, Expenses, Gains and Losses			
State and local capital income	9,591	4,715	5,425
Interest income, Capital	64	98	139
Interest expenses and losses	(10,177)	(7,970)	(7,056)
Total Revenues, Expenses, Gains and Losses	(522)	(3,157)	(1,492)
Decrease in Net Position	$ (8,036)	$ (8,895)	$ (6,929)

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

Non-operating Revenues had a net increase in 2017-18 of approximately $1.9 million resulting from a combination of increases in state apportionment, local property taxes, Pell grants, and non-capital investment and investment income, offset by a reduction in interest expense on capital asset-related debt.

Operating expenses continued to increase in 2017-18 by approximately $2.1 million resulting from increases in Student aid, and salaries and benefits. The mandated increases in state pension costs for STRS and PERS along with standard step and column increases in salaries and salary increases represent the changes.

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

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

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

Statement of Cash Flows for the Year Ended June 30, 2018

		(Amounts in thousands)	
	2018	2017	2016
Cash Provided by (Used in)			
Operating Activities	(56,106)	$ (50,333)	$ (51,255)
Noncapital financing activities	55,309	51,926	54,092
Capital financing activities	72,882	(6,463)	(14,075)
Investing activities	1,059	346	210
Net (Decrease) in Cash	73,144	(4,524)	(11,028)
Cash, Beginning of Year	27,711	32,235	43,263
Cash, End of Year	$ 100,855	$ 27,711	$ 32,235

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $159 million in a broad range of capital assets, including land, buildings, and furniture and equipment, net of depreciation. At June 30, 2017, net capital assets were $163 million. At June 30, 2016, net capital assets were $163.3 million. This slight decrease in capital assets resulted from greater accumulated depreciation in buildings and improvements.

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

	(Amounts in thousands)		
	2018	2017	2016
Land and construction in progress	$ 3,633	$ 773	$ 30,394
Buildings and improvements	213,561	213,289	181,111
Furniture and equipment	21,199	20,430	15,534
Subtotal	238,393	234,492	227,039
Accumulated depreciation	79,292	71,478	63,728
Totals	$ 159,101	$ 163,014	$ 163,311

Long-Term Obligations

At the end of the 2017-18 fiscal year, the District had $237.9 million in bonds outstanding from the voter approved general obligation bonds and other long-term obligations. These bonds will be repaid annually through property taxes on assessed property within the Hartnell Community College District boundaries.

	(Amounts in thousands)		
	2018	2017	2016
General Obligation bonds	$ 237,909	$ 165,859	$ 162,893
Premium on obligations	6,470	2,571	2,612
Net pension liability	52,774	46,000	36,133
Early retirement incentive	-	173	222
Other post employment benefits	957	(2,477)	(2,443)
Total	298,110	212,126	199,417
Less short-term portion	(8,838)	(3,898)	(2,666)
Total long-term portion	289,272	208,228	196,751

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

ECONOMIC FACTORS AFFECTING THE FUTURE OF HARTNELL COMMUNITY COLLEGE DISTRICT

The economic position of Hartnell Community College District is closely tied to the State of California as State apportionments and property taxes allocated to the District represent approximately 90 percent of the total sources of revenues received by the District for unrestricted general operating fund.

At the time the 2018-19 budget was developed, the following assumptions were made:

- The 2018-19 State budget for community colleges contains Cost of Living Allowance (COLA) increase of $1,168,994 and $3,691,298 for Hartnell College as part of the state new Student Centered Funding Formula.
- The 2018-19 State budget for community colleges contains an additional $270 million for general apportionment.
- The new Student Centered Funding Formula calculates apportionment using three allocations. A base allocation based on enrollment. A supplemental allocation based on counts of low income students, and a third allocation based on student success metrics. The formula provides for a three-year hold-harmless transition where the District would receive the greater of the formula total or the amount it received in 2017-18, including changes in cost of living.

As identified in the 2018-19 Adopted Budget, we started the year with approximately a fund balance of $11,067,373. This reflects approximately 2.9% increase in fund balance from the start of the 2017-18 fiscal year. Overall, this represents approximately 21.6 of the Unrestricted General Fund Requirements. These funds represent one-time funds that are not intended for recurring operating expenses, but instead would serve for one-time expenditures. Specifically, these funds would assist the District to address unexpected events. Overall, the state is still forecasting a downturn in the next couple of years and continues to increase its "rainy day" reserves in anticipation of the next recession. As the District looks to the future, it makes fiscal sense to maintain this level of reserves to assist with a future economic downturn affecting all community colleges. The reserves will assist to sustain critical delivery of student instruction and support services. While the 2018-19 is a balanced budget, the use of reserves may be required to balance the budget, if needed after the three-year transition in the new funding formula, or at the time of the next recession.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,306,539	$ 18,326,263
Investments	1,973,284	1,093,678
Receivables, net	4,196,625	4,413,022
Prepaid expenses	660,552	754,832
Inventory	13,487	11,745
Total current assets	25,150,487	24,599,540
Noncurrent assets:		
Restricted cash and cash equivalents	82,548,467	9,384,413
OPEB asset	-	2,477,323
Depreciable capital assets	155,468,115	162,241,291
Non-depreciable capital assets	3,633,352	772,744
Total noncurrent assets	241,649,934	174,875,771
Total assets	266,800,421	199,475,311
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	16,924,504	10,271,656
Deferred outflows of resources - OPEB	217,378	-
Deferred outflows of resources - loss on refunding	10,210,064	11,469,757
Total deferred outflows of resources	27,351,946	21,741,413
Total assets and deferred outflows of resources	$ 294,152,367	$ 221,216,724
LIABILITIES		
Current liabilities:		
Accounts payable	$ 8,386,495	$ 8,529,977
Unearned revenue	5,330,791	5,799,718
Long-term liabilities - current portion	8,838,080	3,897,885
Total current liabilities	22,555,366	18,227,580
Noncurrent liabilities:		
Long-term liabilities - noncurrent portion	289,271,343	210,705,535
Total liabilities	311,826,709	228,933,115
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	2,511,000	1,226,000
NET POSITION		
Net investment in capital assets	17,272,928	25,720,838
Restricted for:		
Expendable:		
Capital projects and debt service	15,778,184	9,076,841
Other special purposes	189,417	114,484
Unrestricted	(53,425,871)	(43,854,554)
Total net position	(20,185,342)	(8,942,391)
Total liabilities, deferred inflows of resources and net position	$ 294,152,367	$ 221,216,724

See accompanying notes to the basic financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Tuition and fees	$ 4,493,003	$ 5,041,116
Less: scholarship discounts and allowances	(2,118,422)	(2,385,013)
Net tuition and fees	2,374,581	2,656,103
Grants and contracts, non-capital:		
Federal	4,631,603	4,215,603
State	15,414,129	19,397,429
Auxiliary enterprise sales and charges	785,501	791,353
Total operating revenues	23,205,814	27,060,488
Operating expenses:		
Salaries	36,945,704	34,561,120
Employee benefits	15,407,820	13,941,696
Supplies, materials, and other operating expenses and services	13,637,837	16,486,188
Student aid	14,162,817	13,116,242
Depreciation	7,813,808	7,749,925
Total operating expenses	87,967,986	85,855,171
Loss from operations	(64,762,172)	(58,794,683)
Non-operating revenues (expenses):		
State apportionment, non-capital	18,405,253	17,105,909
Local property taxes	23,462,622	22,133,482
State taxes and other revenues	324,000	309,000
Pell grants	11,358,275	10,811,118
Interest and investment income, non-capital	1,058,801	346,100
Interest and investment income, capital	64,476	97,804
Interest expense on capital asset-related debt	(10,177,671)	(7,970,311)
Other non-operating revenues, net	2,638,938	2,351,658
Total non-operating revenues (expenses)	47,134,694	45,184,760
Loss before capital revenues	(17,627,478)	(13,609,923)
Capital revenues:		
Local property taxes and other revenue, capital	9,591,251	4,715,178
Change in net position	(8,036,227)	(8,894,745)
Net position, beginning of the year	(8,942,391)	(47,646)
Cumulative effect of GASB 75 implementation	(3,206,724)	-
Net position, beginning of the year, as restated	(12,149,115)	(47,646)
Net position, end of year	$ (20,185,342)	$ (8,942,391)

See accompanying notes to the basic financial statements.

	2018	2017
Cash flows from operating activities:		
Tuition and fees	$ 2,086,070	$ 2,208,388
Federal grants and contracts	4,675,544	3,899,976
State and local grants and contracts	15,406,169	19,536,236
Payments to students	(14,162,817)	(12,376,805)
Payments to suppliers and vendors	(13,785,209)	(17,136,129)
Payments to and on behalf of employees	(51,111,118)	(47,256,235)
Auxiliary enterprises sales and charges	785,501	791,353
Net cash used in operating activities	(56,105,860)	(50,333,216)
Cash flows from noncapital financing activities:		
State appropriations	18,405,253	17,105,909
Local property taxes	23,462,622	22,133,482
State taxes and other revenues	324,000	309,000
Pell grants	11,358,275	10,811,118
Other receipts	1,759,332	1,567,122
Net cash provided by noncapital financing activities	55,309,482	51,926,631
Cash flows from capital and related financing activities:		
Local property taxes and other revenues for capital purposes	9,591,251	4,715,178
Interest received on capital investments	64,476	97,804
Purchase of capital assets	(3,901,240)	(6,536,095)
Proceeds from issuance of GO Bonds	73,941,880	-
Principal paid on capital debt	(3,855,000)	(2,625,000)
Interest paid on capital debt, net	(2,959,460)	(2,115,218)
Net cash provided by (used in) capital and related financing activities	72,881,907	(6,463,331)
Cash flows provided by investing activities:		
Interest on investments	1,058,801	346,100
Net increase (decrease) in cash and cash equivalents	73,144,330	(4,523,816)
Cash and cash equivalents, beginning of year	27,710,676	32,234,492
Cash and cash equivalents, end of year	$ 100,855,006	$ 27,710,676

(Continued)

	2018	2017
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	$ (64,762,172)	$ (58,794,683)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation expense	7,813,808	7,749,925
Changes in assets and liabilities:		
Receivables, net	216,397	(176,820)
Inventory and prepaid expenses	92,538	(656,352)
Deferred outflows of resources - OPEB	(217,378)	-
Deferred outflows of resources - pensions	(6,652,848)	(6,247,566)
Accounts payable	(239,910)	6,411
Unearned revenue	(468,927)	291,722
OPEB and early retirement incentive	53,632	(82,853)
Net pension liability	6,774,000	9,867,000
Deferred inflows of resources - pensions	1,285,000	(2,290,000)
Net cash used in operating activities	$ (56,105,860)	$ (50,333,216)

Supplementary disclosure of non-cash transactions:

	2018	2017
Amortization of premiums on debt	$ 42,885	$ 41,448
Accretion of interest	$ 5,904,975	$ 5,590,502

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2018

	Student Trust Funds	Student Agency Fund
ASSETS		
Cash and cash equivalents	$ 220,228	$ 276,141
Receivables, net	28,225	616
Total assets	$ 248,453	$ 276,757
LIABILITIES		
Accounts payable	$ 5,829	$ 5,664
Due to student groups	-	271,093
Total liabilities	5,829	$ 276,757
NET POSITION		
Restricted net position held in trust	242,624	
Total liabilities and net position	$ 248,453	

See accompanying notes to the basic financial statements.

STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2017

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

See accompanying notes to the basic financial statements.

STATEMENTS OF CHANGE IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2018

	Student Trust Funds
Additions:	
Net investment income, net	
Dividends and interest	$ 2,143
Student fees	131,504
Total additions	133,647
Deductions:	
Operating expenses	88,947
Net increase	44,700
Net position held in trust:	
Net position, beginning of year	197,924
Net position, end of year	$ 242,624

See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT -
HARTNELL COLLEGE FOUNDATION
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,588,220	$ 4,676,033
Grants/Pledges receivable, net	1,512,996	1,534,034
Prepaid expenses	22,535	36,757
Total current assets	6,123,751	6,246,824
Noncurrent assets:		
Pledges receivable, net of current portion	505,000	460,000
Investments	10,401,126	9,417,126
Land held for investment	20,500,000	-
Property and equipment, net	256,579	256,579
Total noncurrent assets	31,662,705	10,133,705
Total assets	$ 37,786,456	$ 16,380,529
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 645,445	$ 318,339
Scholarships payable	322,066	224,522
Deferred revenue	44,802	45,458
Total current liabilities	1,012,313	588,319
NET ASSETS		
Net assets:		
Unrestricted	1,182,363	1,030,916
Temporarily restricted	27,959,708	7,370,972
Permanently restricted	7,632,072	7,390,322
Total net assets	36,774,143	15,792,210
Total liabilities and net assets	$ 37,786,456	$ 16,380,529

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT -
HARTNELL COLLEGE FOUNDATION
(A Nonprofit Organization)
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Donations	$ 136,850	$ 23,542,488	$ 241,750	$ 23,921,088
Special events	269,626	121,005	-	390,631
In-kind donations	212,193	143,915	-	356,108
Interest and dividends	16,679	235,929	-	252,608
Realized gain on investments	14,595	284,015	-	298,610
Unrealized gain on investments	33,082	524,338	-	557,420
Other revenue	160,573	303,022	-	463,595
Interfund transfers	(19,466)	19,466	-	-
Net assets released from restriction	4,585,442	(4,585,442)	-	-
Total revenues	5,409,574	20,588,736	241,750	26,240,060
Expenses:				
Program	4,823,797	-	-	4,823,797
General and administrative	196,928	-	-	196,928
Fundraising	237,402	-	-	237,402
Total expenses	5,258,127	-	-	5,258,127
Change in net assets	151,447	20,588,736	241,750	20,981,933
Net assets, July 1, 2017	1,030,916	7,370,972	7,390,322	15,792,210
Net assets, June 30, 2018	$ 1,182,363	$ 27,959,708	$ 7,632,072	$ 36,774,143

See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Hartnell Community College District (the "District") is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Codification Section (Cod. Sec.) 2100.101. The District is classified as a state instrumentality under Internal Revenue Code Section 115.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Cod. Sec. 2100. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The District identified the Hartnell College Foundation (the "Foundation") as its potential component unit.

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

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

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

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Receivables: Receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance is based upon management's estimates and analysis. The allowance was estimated at $345,760 and $297,899 as of June 30, 2018 and 2017, respectively.

Pledges Receivable - Foundation: Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. An allowance for uncollectible pledges receivable is established based upon estimated losses related to specific amounts and is recorded through a provision for bad debt which is charged to expense. At , management has determined that an allowance for uncollectible pledges is not necessary. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates commensurate with risks applicable in the years in which those promises are received. As of June 30, 2018 and 2017, the Foundation has not applied a present value discount as the amount was not significant and all pledges are receivable in one to five years.

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

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

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

The District capitalizes interest paid on obligations related to the acquisition, construction or rehabilitation of District capital assets. Interest incurred and capitalized totaled $7,930,543 and $68,035, respectively, for the year ended June 30, 2018. Interest incurred and capitalized totaled $9,947,328 and $916,863, respectively, for the year ended June 30, 2017.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Certain investments are reported at fair value. The following is a summary of pension amounts in aggregate as of June 30, 2018:

	CalSTRS	CalPERS	Total
Deferred outflows of resources	$ 9,679,015	$ 7,245,489	$ 16,924,504
Deferred inflows of resources	$ 2,247,000	$ 264,000	$ 2,511,000
Net pension liability	$ 30,372,000	$ 22,402,000	$ 52,774,000
Pension expense	$ 4,625,076	$ 4,320,948	$ 8,946,024

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of pension amounts in aggregate as of June 30, 2017:

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

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

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

Restricted net position: Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Nonspendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal. At June 30, 2018 and 2017, there is no balance of nonexpendable restricted net position.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District typically applies the expense toward restricted resources, then to unrestricted resources.

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

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Operating revenues and expenses: Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most Federal, State and local grants and contracts and Federal appropriations. All expenses are considered operating expenses except for interest expense on capital related debt.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Tax Status - Foundation: The Foundation is a nonprofit public benefit corporation exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation has been classified as an organization that is not a private foundation and has been designated as a "publicly supported" organization. Contributions to the Foundation are deductible under Section 170(c)(2). The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Interest and penalties on tax assessments are classified as an expense when incurred. For the years ended June 30, 2018 and 2017, the Foundation did not incur any interest or penalties.

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

New Accounting Pronouncement: In June 2015, the Government Accounting Standards Board (GASB) issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on the implementation of Statement No. 75, the District's July 1, 2017 business-type activities net position was restated by $3,206,724 because of the recognition of the net OPEB liability and related deferred outflows of resources. The actuarial valuation report for OPEB did not provide sufficient information to restate the District's net position at July 1, 2016, as such, the restatement of the July 1, 2016 net position is not practical.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments at June 30, 2018, consisted of the following:

	District	Fiduciary
Pooled Funds:		
Cash in County Treasury	$ 98,736,112	$ 380,570
Deposits:		
Cash on hand and in banks	2,118,894	115,799
Total cash and cash equivalents	100,855,006	496,369
Less: restricted cash and cash equivalents		
Cash in County Treasury	82,548,467	-
Net cash and cash equivalents	$ 18,306,539	$ 496,369
Investments	$ 1,973,284	$ -

Foundation cash and cash equivalents at June 30, 2018, totaled $4,588,220.

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

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

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

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

(Continued)

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

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

The District's deposits in the fund are considered to be highly liquid. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The County Treasurer has indicated that there are no derivatives in the pool as of June 30, 2018 and 2017

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

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2018, the carrying amount of the District's accounts, including fiduciary accounts, were $2,234,693, and the bank balances were $1,379,730. The total uninsured bank balances at June 30, 2018 were $1,000,839. At June 30, 2017 ,the carrying amount of the District's accounts, including fiduciary accounts, were $768,814, and the bank balances were $776,017. The total uninsured bank balances at June 30, 2017 were $424,357.

At June 30, 2018, the bank balance of the Foundation's cash in banks and with brokers was $4,770,176 of which $2,529,283 was uninsured. At June 30, 2017, the bank balance of the Foundation's cash in banks and with brokers was $4,353,763 of which $2,114,764 was uninsured.

Interest Rate Risk: The District and Foundation's investment policies do not limit cash and investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates. At June 30, 2018 and 2017, the District and Foundation had no significant interest rate risk related to cash and investments held.

Concentration of Credit Risk: The District and Foundation do not place limits on the amount they may invest in any one issuer. At June 30, 2018 and 2017, the District and Foundation had no concentration of credit risk.

District investments at June 30, 2018 consisted of the following:

Mutual funds	$ 1,973,284

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

Mutual funds	$ 1,093,678

(Continued)

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

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

	2018	2017
Fixed income	$ 1,610,823	$ 1,618,877
Equity securities	8,329,524	7,345,529
Mutual funds	126,606	123,397
Investment in Foundation for California Community Colleges Scholarship Endowment (FCCC/Osher)	334,173	329,323
Total	$ 10,401,126	$ 9,417,126

Foundation investment income consisted of the following:

	2018	2017
Interest and dividend income	$ 252,608	$ 212,243
Realized gain on investments	298,610	285,235
Unrealized gain (loss) on investments	557,420	559,952
Total	$ 1,108,638	$ 1,057,430

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

(Continued)

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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

	June 30, 2018			
Description	Fair Value	Level 1	Level 2	Level 3
Investment securities:				
Fixed income	1,610,823	1,610,823	-	-
Equity securities	8,329,524	8,329,524	-	-
Mutual funds	126,606	126,606	-	-
Investment in FCCC/Osher*	334,173	-	-	-
Total investment securities	$ 10,401,126	$ 10,066,953	$ -	$ -

	June 30, 2017			
Description	Fair Value	Level 1	Level 2	Level 3
Investment securities:				
Fixed income	1,618,877	1,618,877	-	-
Equity securities	7,345,529	7,345,529	-	-
Mutual funds	123,397	123,397	-	-
Investment in FCCC/Osher*	329,323	-	-	-
Total investment securities	$ 9,417,126	$ 9,087,803	$ -	$ -

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

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

The fair value of the investments held by FCCC was based upon the net asset values (“NAVs”) of the assets at June 30, 2018 and 2017. The fair value of the funds held by FCCC is based upon the Foundation’s proportionate share of the FCCC/Osher pooled investment portfolio. Foundation management reviews the valuations and returns in comparison to industry benchmarks and other information provided by FCCC, but there is currently no visibility provided by FCCC to the specific listing of underlying investment holdings.

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

(Continued)

NOTE 4 - RECEIVABLES

District receivables at June 30, are summarized as follows:

	2018	2017
Federal	$ 1,190,244	$ 1,234,185
State	982,439	1,010,479
Local and other	2,369,702	2,466,257
	4,542,385	4,710,921
Less allowance for doubtful accounts	(345,760)	(297,899)
	$ 4,196,625	$ 4,413,022

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the District consists of the following at June 30, 2018:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Non-depreciable:				
Land	$ 590,992	$ -	$ -	$ 590,992
Construction in progress	181,752	2,860,608	-	3,042,360
Depreciable:				
Buildings and improvements	213,288,460	272,623	-	213,561,083
Furniture and equipment	20,430,892	768,009	-	21,198,901
Total	234,492,096	3,901,240	-	238,393,336
Less accumulated depreciation:				
Buildings and improvements	60,456,086	5,898,656	-	66,354,742
Furniture and equipment	11,021,975	1,915,152	-	12,937,127
Total	71,478,061	7,813,808	-	79,291,869
Capital assets, net	$ 163,014,035	$ (3,912,568)	$ -	$ 159,101,467

(Continued)

NOTE 5 - CAPITAL ASSETS (Continued)

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

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

NOTE 6 - UNEARNED REVENUE

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

	2018	2017
Unearned tuition and student fees	$ 961,283	$ 781,964
Unearned grant revenue and other	4,369,508	5,017,754
Total unearned revenue	$ 5,330,791	$ 5,799,718

NOTE 7 - LONG-TERM LIABILITIES

A schedule of changes in long-term debt for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017 as restated	Additions	Deductions	Balance June 30, 2018	Amounts Due Within One Year
General Obligation Bonds	$ 146,191,666	$ 70,000,000	$ 3,855,000	$ 212,336,666	$ 8,715,000
Premium on General Obligation Bonds	2,571,288	3,941,880	42,885	6,470,283	123,080
Accreted interest	19,666,937	5,904,975	-	25,571,912	-
Net pension liability	46,000,000	6,774,000	-	52,774,000	-
Net OPEB liability	729,401	227,161	-	956,562	-
Early retirement incentive	173,529	-	173,529	-	-
	$ 215,332,821	$ 86,848,016	$ 4,071,414	$ 298,109,423	$ 8,838,080

(Continued)

NOTE 7 - LONG-TERM LIABILITIES (Continued)

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

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

General Obligation Bonds

2005 General Obligation Refunding Bonds

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

2002 General Obligation Bonds, Series B

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

2002 General Obligation Bonds, Series C

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

The annual payments required to amortize the Capital Appreciation 2002 General Obligation Bonds, Series C outstanding as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024-2028	$ 2,575,513	$ 11,615,053	$ 14,190,566
2029-2033	9,596,903	16,823,663	26,420,566
2034	425,472	543,315	968,787
	$ 12,597,888	$ 28,982,031	$ 41,579,919

(Continued)

NOTE 7 - LONG-TERM LIABILITIES (Continued)

2002 General Obligation Bonds, Series D

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

The annual payments required to amortize the 2002 General Obligation Bonds, Series D outstanding as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024-2028	$ -	$ 10,158,750	$ 10,158,750
2029-2033	2,084,480	12,544,756	14,629,236
2034-2038	11,214,130	21,615,535	32,829,665
2039-2043	-	-	-
2044-2048	-	-	-
2049-2050	164,872	14,085,127	14,249,999
	$ 13,463,482	$ 58,404,168	$ 71,867,650

(Continued)

NOTE 7 - LONG-TERM LIABILITIES (Continued)

2014 General Obligation Bonds, Series A

During January 2014, the District issued $24,265,000 of federally tax-exempt 2014 General Obligation Refunding Bonds, Series A, with an effective interest rate of 3.45%. Proceeds were used to advance refund a portion of the outstanding 2005 General Obligation Refunding Bonds and portions of the 2002 General Obligation Bonds Series B and Series D and to pay the costs of issuing the 2014 General Obligation Refunding Bonds, Series A. The bonds mature August 1, 2014 through August 1, 2030. At June 30, 2018, $4,579,500 of bonds outstanding are considered defeased.

The following is a schedule of the future payments for the 2014 General Obligation Refunding Bonds, Series A as of June 30, 2018:

Year Ending June 30,	Principal	Interest	Total
2019	$ 1,165,000	$ 776,059	$ 1,941,059
2020	1,290,000	734,596	2,024,596
2021	1,390,000	689,600	2,079,600
2022	1,550,000	640,294	2,190,294
2023	2,195,000	585,557	2,780,557
2024-2028	12,260,000	1,459,826	13,719,826
2029-2031	2,940,000	166,279	3,106,279
	$ 22,790,000	$ 5,052,211	$ 27,842,211

2014 General Obligation Bonds, Series B

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

The following is a schedule of the future payments for the 2014 General Obligation Refunding Bonds, Series B as of June 30, 2018:

Year Ending June 30,	Principal	Interest	Total
2019	$ 2,605,000	$ 84,851	$ 2,689,851
2020	1,350,000	17,213	1,367,213
	$ 3,955,000	$ 102,064	$ 4,057,064

(Continued)

NOTE 7 - LONG-TERM LIABILITIES (Continued)

2015 General Obligation Bonds, Series A

During December 2015, the District issued federally tax-exempt 2015 General Obligation Refunding Bonds, Series A, in the amount of $22,675,000 in current interest bonds and $64,890,295 in capital appreciation bonds. Proceeds were used to currently refund all of the outstanding 2005 General Obligation Refunding Bonds and advance refund portions of the 2002 General Obligation Bonds Series B and Series D and to pay the costs of issuing the 2015 General Obligation Refunding Bonds, Series A. The current interest bonds mature from August 1, 2020 through August 1, 2031 with interest rates ranging from 3.00 to 5.00 percent. The capital appreciation bonds mature from August 1, 2035 through August 1, 2049 with interest accretion rates ranging from 4.12 to 4.52 percent Interest on capital appreciation bonds is compounded semiannually each year and is payable only at maturity. At June 30, 2018, $32,590,041 of bonds outstanding are considered defeased.

The annual payments required to repay the the 2015 General Obligation Refunding Bonds, Series A as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ -	$ 896,000	$ 896,000
2020	-	896,000	896,000
2021	2,610,000	856,850	3,466,850
2022	2,800,000	747,700	3,547,700
2023	3,065,000	601,075	3,666,075
2024-2028	1,010,000	2,597,000	3,607,000
2029-2032	13,190,000	865,225	14,055,225
2034-2038	12,767,152	17,267,848	30,035,000
2039-2043	21,712,894	41,572,106	63,285,000
2044-2048	22,747,063	61,862,937	84,610,000
2049-2050	7,663,187	25,771,813	33,435,000
	$ 87,565,296	$ 153,934,554	$ 241,499,850

2015 General Obligation Bonds, Series B

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

NOTE 7 - LONG-TERM LIABILITIES (Continued)

The annual payments required to repay the the 2015 General Obligation Refunding Bonds, Series B as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ -	$ 73,688	$ 73,688
2020	-	73,688	73,688
2021	-	73,688	73,688
2022	-	73,688	73,688
2023	-	73,688	73,688
2024-2028	1,965,000	331,591	2,296,591
	$ 1,965,000	$ 700,031	$ 2,665,031

2016 General Obligation Bonds, Series A

During September 2017, the District issued taxable 2016 General Obligation Refunding Bonds, Series A, in the amount of $70,000,000 in current interest bonds. The bonds mature from August 1, 2018 through August 1, 2047 with interest rates ranging from 2.0 to 5.0 percent.

The annual payments required to repay the the 2016 General Obligation Bonds, Series A as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 4,945,000	$ 2,397,527	$ 7,342,527
2020	4,185,000	2,565,019	6,750,019
2021	3,205,000	2,397,619	5,602,619
2022	-	2,237,369	2,237,369
2023	-	2,237,369	2,237,369
2024-2028	2,365,000	11,041,644	13,406,644
2029-2032	5,665,000	10,251,994	15,916,994
2034-2038	10,035,000	8,872,194	18,907,194
2039-2043	15,835,000	6,624,850	22,459,850
2044-2048	23,765,000	2,908,311	26,673,311
	$ 70,000,000	$ 51,533,896	$ 121,533,896

Early Retirement Incentive: During April 2009, the Board of Trustees adopted a resolution for the implementation of an Early Retirement Incentive for full-time faculty. A total of seven full-time faculty are participating. The District will pay benefits totaling $600,551. Payments of $173,529 and $49,133 were made during the 2017-18 and 2016-17 fiscal years, respectively. The total liability has been paid off and reflected in these financial statements. The net savings for the life of the plan is estimated at $945,000.

(Continued)

NOTE 8 - PROPERTY TAXES

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

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

General Information about the State Teachers' Retirement Plan

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

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

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

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

CalSTRS 2% at 60

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

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

(Continued)

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

CalSTRS 2% at 62

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

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

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

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

Members – Under CalSTRS 2% at 60, the member contribution rate was 10.25 and 10.25 percent of applicable member earnings for fiscal years 2017-18 and 2016-17, respectively. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 9.205 and 9.205 percent of applicable member earnings for fiscal years 2017-18 and 2016-17, respectively.

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

According to current law, the contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1 percent since the last time the member contribution rate was set. Based on the June 30, 2017, valuation adopted by the board in May 2018, the increase in normal cost was greater than 1 percent. Therefore, contribution rates for CalSTRS 2% at 62 members will increase by 1 percent effective July 1, 2018.

Employers – 14.43 and 12.58 percent of applicable member earnings for fiscal years 2017-18 and 2016-17, respectively.

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

(Continued)

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

The CalSTRS employer contribution rate increases effective for fiscal year 2017-18 through fiscal year 2045-46 are summarized in the table below:

Effective Date	Prior Rate	Increase	Total
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2021 to June 30, 2046	8.25%	*	*
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

* The Teachers' Retirement Board (the "board") cannot adjust the employer rate by more than 1 percent in a fiscal year, and the increase to the contribution rate above the 8.25 percent base contribution rate cannot exceed 12 percent for a maximum of 20.25 percent.

The District contributed $2,786,015 and $2,220,709 to the plan for the fiscal years ended June 30, 2018 and 2017, respectively.

State – 9.328 and 8.828 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year for fiscal years 2017-18 and 2016-17, respectively.

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046-2047. The CalSTRS state contribution rates effective for fiscal year 2015-16 and beyond are summarized in the table below.

Effective Date	Base Rate	AB 1469 Increase For 1990 Benefit Structure	SBMA Funding	Total State Appropriation to DB Program
July 01, 2018	2.017%	5.311%(2)	2.50%	9.828%
July 2019 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 01, 2046 and thereafter	2.017%	(4)	2.50%	4.517%(3)

(1)This rate does not include $72 million reduction with Education Code 22954
(2)In May 2018 meeting, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2018.
(3)The CalSTRS board has limited authority to adjust state contribution rates annually through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent.
(4) From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary to address any remaining 1990 unfunded actuarial obligation.

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

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

At June 30, 2018 and 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amounts recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

	2018	2017
District's proportionate share of the net pension liability	$ 30,372,000	$ 27,739,000
State's proportionate share of the net pension liability associated with the District	17,968,000	15,793,000
Total	$ 48,340,000	$ 43,532,000

For fiscal year 2017-18, the net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. For fiscal year 2016-17, the net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2018, the District's proportion was 0.033 percent, which was a decrease of 0.001 percent from its proportion measured as of June 30, 2017. At June 30, 2017, the District's proportion was 0.034 percent, which was consistent with its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $4,625,076 and revenue of $2,687,367 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 112,000	$ 530,000
Changes of assumptions	5,627,000	-
Net differences between projected and actual earnings on investments	-	809,000
Changes in proportion and differences between District contributions and proportionate share of contributions	1,154,000	908,000
Contributions made subsequent to measurement date	2,786,015	-
Total	$ 9,679,015	$ 2,247,000

(Continued)

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

For the year ended June 30, 2017, the District recognized pension expense of $4,071,972 and revenue of $1,350,997 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 677,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	2,205,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	202,000	-
Contributions made subsequent to measurement date	2,220,709	-
Total	$ 4,627,709	$ 677,000

$2,786,015 reported as deferred outflows of resources as of June 30, 2018 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019	$ 301,517
2020	$ 1,484,517
2021	$ 1,048,517
2022	$ 256,517
2023	$ 749,767
2024	$ 805,165

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2017. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

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

Actuarial Methods and Assumptions: The total pension liability for the 2017-18 STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The total pension liability for the 2016-17 STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015 and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016 and 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Dates	June 30, 2016 and 2015
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

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

During the 2016-17 measurement period, CalSTRS completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the NPL of the STRP changed, including the price inflation, wage growth, discount rate and the mortality tables used in the actuarial valuation of the NPL. The changes to the assumptions as a result of the experience study follow:

	Measurement Period	
Assumption	As of June 30, 2017	As of June 30, 2016
Consumer price inflation	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

(Continued)

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the CalSTRS board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table for valuation as of June 30, 2016:

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

* 20-year geometric average

For the valuation as of June 30, 2015, the following best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

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

** 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability recorded as of June 30, 2018 and 2017 was 7.10% and 7.60%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability at June 30, 2018 calculated using the discount rate of 7.10 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability - 2018	$ 44,596,000	$ 30,372,000	$ 18,829,000

The following presents the District's proportionate share of the net pension liability at June 30, 2017 calculated using the discount rate of 7.60 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability - 2017	$ 39,922,000	$ 27,739,000	$ 17,620,000

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

NOTE 10 - NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B

General Information about the Public Employer's Retirement Fund B

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

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

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

(Continued)

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

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

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

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2018 and 2017 were as follows:

Members – The member contribution rate was 6.5 or 6.0 percent of applicable member earnings for fiscal years 2017-18 and 2016-17, respectively.

Employers – The employer contribution rates were 15.531 and 13.888 percent of applicable member earnings for fiscal years 2017-18 and 2016-17, respectively.

The District contributed $2,066,489 and $1,677,948 to the plan for the fiscal years ended June 30, 2018 and 2017, respectively.

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

At June 30, 2018, the District reported a liability of $22,402,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. At June 30, 2017, the District reported a liability of $18,261,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2018, the District's proportion was 0.090 percent, which was a decrease of 0.002 percent from its proportion measured as of June 30, 2017. At June 30, 2017, the District's proportion was 0.092 percent, which was an increase of 0.002 percent from its proportion measured as of June 30, 2016.

(Continued)

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

For the year ended June 30, 2018, the District recognized pension expense of $4,320,948. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 803,000	$ -
Changes of assumptions	3,272,000	264,000
Net differences between projected and actual earnings on investments	775,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	329,000	-
Contributions made subsequent to measurement date	2,066,489	-
Total	$ 7,245,489	$ 264,000

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

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

(Continued)

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

$2,066,489 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019	$ 1,416,667
2020	$ 2,340,667
2021	$ 1,582,167
2022	$ (424,501)

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2015. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the 2017-18 STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The total pension liability for the 2016-17 STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015 and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015 and as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Dates	June 30, 2016 and June 30, 2015
Experience Study	June 30, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.15%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

During the 2016-17 measurement period, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent.

(Continued)

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

The table below reflects long-term expected real rate of return by asset class for the valuation date June 30, 2016. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Long-Term* Assumed Asset Allocation	Expected Real Rate of Return Years 1-10 (1)	Expected Real Rate of Return Years 11+(2)
Global Equity	47%	4.90%	5.38%
Fixed Income	19	0.80	2.27
Inflation Assets	6	0.60	1.39
Private Equity	12	6.60	6.63
Real Estate	11	2.80	5.21
Infrastructure & Forestland	3	3.90	5.36
Liquidity	2	(0.40)	(0.90)

* 10-year geometric average
(1) An expected inflation rate of 2.50% used for this period
(2) An expected inflation rate of 3.00% used for this period

The table below reflects long-term expected real rate of return by asset class for the valuation date June 30, 2015. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

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

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.15 and 7.65 percent in fiscal years 2017-18 and 2016-17, respectively. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

(Continued)

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

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability as of June 30, 2018 calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability - 2018	$ 32,961,000	$ 22,402,000	$ 13,643,000

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability - 2017	$ 27,245,000	$ 18,261,000	$ 10,780,000

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

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description: In addition to the pension benefits described in Notes 9 and 10, the District established an Other Postemployment Benefits Plan which is a single-employer defined benefit healthcare plan. The plan does not issue separate financial statements.

The District established an irrevocable trust under the California Employer's Retiree Benefit Trust Program (CERBT) to prefund the costs of other postemployment benefits. The funds in the CERBT are held in trust and will be administered by the California Public Employees' Retirement System (CalPERS) as an agent multiple-employer plan. Benefit provisions are established and may be amended by District labor agreements which are approved by the Board of Education. The District's contributions to the irrevocable trust is included in the CERBT, which is included in the CalPERS CAFR. Copies of the CalPERS' CAFR may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

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

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

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

Employees Covered by Benefit Terms: The following is a table of plan participants at June 30, 2018:

	Number of Participants
Inactive plan members, covered spouses, or beneficiaries currently receiving benefits	11
Active employees	292
	303

Contributions: California Government Code specifies that the District's contribution requirements for covered employees are established and may be amended by the Governing Board.

Contributions to the Plan from the District were $217,378 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB plan.

(Continued)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

OPEB Plan Investments: The plan discount rate of 4.5% was determined using the following asset allocation and assumed rate of return:

CERBT - Strategy 2

Asset Class	Long-Term* Assumed Asset Allocation	Expected Rate of Return
US Large Cap	40%	7.8%
US Small Cap	10	7.8
Long-Term Corporate Bonds	18	5.3
Long-Term Governmental Bonds	6	4.5
Treasury Inflation Protected Securities	15	7.8
US Real Estate	8	7.8
All Commodities	3	7.8

CERBT - Strategy 1

Asset Class	Long-Term* Assumed Asset Allocation	Expected Rate of Return
US Large Cap	43%	7.8
US Small Cap	23	7.8
Long-Term Corporate Bonds	12	5.3
Long-Term Governmental Bonds	6	4.5
Treasury Inflation Protected Securities	5	7.8
US Real Estate	8	7.8
All Commodities	3	7.8

*Geometric average

Rolling periods of time for all asset classes in combination we used to appropriately reflect correlation between asset classes. This means that the average returns for any asset class do not necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average. Historical 19 year real rates of return for each class along with assumed long-term inflation assumption was used to calculate the discount rate. The expected investment return was offset by investment expenses of 25 basis points.

Money-weighted rate of return on OPEB plan investments	4.5%

The money-weighted rate of return expresses investment performance, net of OPEB plan investment expenses, adjusted for the changing amounts actually invested.

(Continued)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Valuation Date	June 30, 2017
Fiscal Year End	June 30
Certificated Mortality Rate	2009 CalSTRS Mortality
Classified Mortality Rate	2014 CalPERS Active Mortality for Miscellaneous Employers
Discount Rate as of 6/30/2017	4.5%. Based on the long-term expected rate of return
Assumed Investment Return	4.5%
Retirement Rate	2009 CalSTRS Retirement Rates Hired before 1/1/2013: 2009 CalPERS Retirement Rates for School Employers. Hired after 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees 2%@ 62 adjusted to minimum retirement age of 52.
Healthcare cost trend rate	4.0%
Salary Increases	2.75% per year
Termination Rate	Termination rates match rates developed in the most recent experience studies for California PERS (2009) and California STRS (2009).
Spouses Prevalence	80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.
Funding Method	Entry Age Cost Method (Level Percentage of Pay).

(Continued)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes in the Net OPEB Liability:

	Total OPEB Liability (a)	Total Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, June 30, 2017	$ 5,124,742	$ 4,395,341	$ 729,401
Changes for the year:			
Service cost	523,015	-	523,015
Interest	237,167	-	237,167
Employer contributions	-	217,378	(217,378)
Expected investment income	-	317,961	(317,961)
Administrative expense	-	(2,318)	2,318
Benefit payments	(217,378)	(217,378)	-
Net change	542,804	315,643	227,161
Balance, June 30, 2018	$ 5,667,546	$ 4,710,984	$ 956,562

Fiduciary Net Position as a % of the Total OPEB Liability, at June 30, 2018: 83.12%

Sensitivity of the Net Pension Liability to Assumptions: The following presents the net OPEB liability calculated using the discount rate of 4.5 percent. The schedule also shows what the net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (3.5 percent) and 1 percent higher (5.5):

	Discount Rate 1% Lower (3.5%)	Valuation Discount Rate (4.5%)	Discount Rate 1% Higher (5.5%)
Net OPEB liability	$ 1,380,870	$ 956,562	$ 576,648

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

	Health Care Trend Rate 1% Lower (3.0%)	Valuation Health Care Trend Rate (4.0%)	Health Care Trend Rate 1% Higher (5.0%)
Net OPEB liability	$ 621,014	$ 956,562	$ 1,297,127

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $420,494.

$217,378 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

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

Construction Commitments: As of June 30, 2018 and 2017, there were no outstanding commitments on construction contracts.

NOTE 13 - JOINT POWERS AGREEMENTS

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

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

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

(Continued)

NOTE 13 - JOINT POWERS AGREEMENTS (Continued)

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

	MCSIG June 30, 2017	BACCD June 30, 2017
Total assets and deferred outflows of resources	$ 21,853,534	$ 8,541,382
Total liabilities and deferred inflows of resources	$ 17,612,125	$ 3,297,870
Net position	$ 4,241,409	$ 5,243,512
Total revenues	$ 83,759,202	$ 4,037,238
Total expenses	$ 92,829,337	$ 4,692,243
Change in net position	$ (9,070,135)	$ (655,005)

	SWACC June 30, 2017	PIPS June 30, 2017
Total assets	$ 52,910,567	$ 129,260,118
Total liabilities	$ 27,810,540	$ 111,815,654
Net position	$ 25,100,027	$ 17,444,464
Total revenues	$ 19,745,133	$ 301,089,852
Total expenses	$ 23,052,500	$ 296,996,362
Change in net position	$ (3,307,367)	$ 4,093,490

	SAFER June 30, 2017	SBRPSTC June 30, 2017
Total assets	$ 25,967,058	$ 7,679,314
Total liabilities	$ 25,277,081	$ 2,363,998
Net position	$ 689,977	$ 5,315,316
Total revenues	$ 55,637,171	$ 13,350,487
Total expenses	$ 57,088,960	$ 11,826,013
Change in net position	$ (1,451,789)	$ 1,524,474

REQUIRED SUPPLEMENTARY INFORMATION

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S NET
OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
For the Years Ended June 30, 2018 and 2017

Last 10 Fiscal Years

	2018
Total OPEB liability	
Service Cost	$ 523,015
Interest	237,167
Benefit payments	(217,378)
Net change in total OPEB liability	542,804
Total OPEB liability, beginning of year	5,124,742
Total OPEB liability, end of year (a)	$ 5,667,546
Plan fiduciary net position	
Employer contributions	$ 217,378
Expected interest income	317,961
Administrative expense	(2,318)
Benefits payment	(217,378)
Change in plan fiduciary net position	315,643
Fiduciary trust net position, beginning of year	4,395,341
Fiduciary trust net position, end of year (b)	$ 4,710,984
Net OPEB liability, ending (a) - (b)	$ 956,562
Covered-employee payroll	$ 30,467,070
Plan fiduciary net position as a percentage of the total OPEB liability %	83.12%
Net OPEB liability as a percentage of covered-employee payroll%	3.14%

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

Last 10 Fiscal Years

	2018
Money-weighted rate of return on OPEB plan investments	4.5%

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

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Years Ended June 30, 2018 and 2017

State Teacher's Retirement Plan
Last 10 Fiscal Years

	2015	2016	2017	2018
District's proportion of the net pension liability	0.031%	0.034%	0.034%	0.033%
District's proportionate share of the net pension liability	$ 18,385,000	$ 22,875,000	$ 27,739,000	$ 30,372,000
State's proportionate share of the net pension liability associated with the District	11,102,000	12,098,000	15,793,000	17,968,000
Total net pension liability	$ 29,487,000	$ 34,973,000	$ 43,532,000	$ 48,340,000
District's covered payroll	$ 14,013,000	$ 15,770,000	$ 17,092,000	$ 17,406,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	131.20%	145.05%	162.29%	174.49%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%

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

All years prior to 2015 are not available.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Years Ended June 30, 2018 and 2017

Public Employers Retirement Fund B
Last 10 Fiscal Years

	2015	2016	2017	2018
District's proportion of the net pension liability	0.089%	0.090%	0.092%	0.090%
District's proportionate share of the net pension liability	$ 10,148,000	$ 13,258,000	$ 18,261,000	$ 22,402,000
District's covered payroll	$ 9,384,000	$ 9,958,000	$ 11,092,000	$ 12,082,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	108.14%	133.14%	164.63%	185.42%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%	71.87%

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

All years prior to 2015 are not available.

See accompanying note to the required supplementaty information.

State Teachers' Retirement Plan
Last 10 Fiscal Years

	2015	2016	2017	2018
Contractually required contribution	$ 1,400,416	$ 1,833,975	$ 2,220,709	$ 2,786,015
Contributions in relation to the contractually required contribution	1,400,416	1,833,975	2,220,709	2,786,015
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 15,770,000	$ 17,092,000	$ 17,406,000	$ 19,307,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.76%	14.43%

All years prior to 2015 are not available.

(Continued)

Public Employers Retirement Fund B
Last 10 Fiscal Years

	2015	2016	2017	2018
Contractually required contribution	$ 1,172,101	$ 1,314,115	$ 1,677,948	$ 2,066,489
Contributions in relation to the contractually required contribution	1,172,101	1,314,115	1,677,948	2,066,489
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 9,958,000	$ 11,092,000	$ 12,082,000	$ 13,306,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%	15.53%

All years prior to 2015 are not available.

NOTE 1 - PURPOSE OF SCHEDULES

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

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

B - Schedule of Money-Weighted Rate of Return of OPEB Plan Investments

The Schedule of Money-Weighted Rate of Return of OPEB Plan Investments presents the weighted average rate of return for the District's OPEB Plan investments.

C - Schedule of the District’s Proportionate Share of the Net Pension Liability

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

D - Schedule of the District’s Contributions

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

E - Changes of Benefit Terms

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

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B (PERF B) was 7.50, 7.65, 7.65 and 7.15 percent in the June 30, 2013, 2014, 2015 and 2016 actuarial reports, respectively.

The following are the assumptions for State Teachers' Retirement Plan:

	Measurement Period		
Assumption	As of June 30, 2017	As of June 30, 2016	As of June 30, 2015
Consumer price inflation	2.75%	3.00%	3.00%
Investment rate of return	7.10%	7.60%	7.60%
Wage growth	3.50%	3.75%	3.75%

SUPPLEMENTARY INFORMATION

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

The Governing Board and District Administration for the fiscal year ended June 30, 2018 were composed of the following members:

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
Direct Programs:		
Student Financial Aid Cluster:		
Federal Supplemental Educational Opportunity Program (FSEOG)	84.007	$ 175,770
Federal Work Study (FWS)	84.033	169,678
Federal Pell Grants (PELL)	84.063	11,358,275
Financial Aid Admin Allowance	84.063	16,330
Subtotal Financial Aid Cluster		11,720,053
TRIO Cluster:		
TRIO Cluster- Student Support Services Program	84.042A	267,307
TRIO Cluster- Upward Bound Serving High Schools	84.047A	187,260
Subtotal TRIO Cluster		454,567
Migrant Ed - High School Equivalency Program	84.141A	483,953
Child Care Access Access Grant	84.335A	53,395
Passed through the University Corporation at CSU Monterey Bay:		
Monterey County Consortium for Mathematics Readiness	84.637B	22,389
Title V Programs:		
HSI STEM Guided Pathways	84.031C	1,496,782
Title V - HSI Cultivamos Project: High School dual enrollment	84.031	90,344
Title V - STEM Regional Community College-to-University Success Program (CUSP)	84.031C	50,242
Passed through Gavilan Joint Community College District:		
Streamlined Career Transfer Pathways	84.031	39,546
Subtotal Title V Programs		1,676,914
Passed through California Community Colleges Chancellor's Office:		
Perkins IV Programs:		
Carl D. Perkins Career and Technical Education (CTE) Act CTE - Title I, Part C (Perkins IV)	84.048A	292,872
Career Technical Education Transitions (CTE Transitions)	84.048A	41,592
Subtotal Perkins IV Programs		334,464
Total U.S. Department of Education		14,745,735

(Continued)

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
Foster Care Programs:		
Passed through California Community Colleges Chancellor's Office:		
Foster and Kinship Care Education Program- Title IV-E	93.658	$ 89,570
Passed through County of Monterey, Department of Social and Employee Services:		
Foster Care- Title IV-E (DSES)	93.658	707,656
Subtotal Foster Care Programs		797,226
Passed through University of California, Santa Cruz:		
National Institute of Health	93.375	19,000
Passed through California Community College Chancellor's Office:		
Temporary Assistance for Needy Families (TANF) Cluster	93.558	45,104
Passed through Yosemite Community College District:		
Child Development Training Consortium - CCDF Cluster	93.575	8,803
Total U.S. Department of Health and Human Services		870,133
U.S. Department of Agriculture		
Passed through the University Corporation at CSU Monterey Bay:		
USDA-CSUMB	10.326	15,491
Passed through the University Corporation at CSU Monterey Bay:		
NIFA-CSUMB	10.217	22,129
Total Department of Agriculture		37,620
U.S. Department of National and Community Service		
Direct Program:		
National Service Award for Scholarships	94.006	2,865
U.S. Department of Veterans Affairs		
Direct Program:		
Veterans Educational Assistance	64.027	924
Direct Program:		
Research & Development Cluster:		
Department of National Aeronautics & Space Administration		
Minority University Research and Education Project Aerospace Academy (NASA MAA)	43.008	146,101
U.S. National Science Foundation		
STEM Scholarship Program	47.076	122,254
Pass through University Corporation at CSU Monterey Bay:		
Academic Integrity Management	47.076	64,246
Total Research & Development Cluster		332,601
Total Federal Programs		$ 15,989,878

See accompanying note to supplementary information.

	Program Revenues				
	Cash Received	Accounts Receivable	Unearned Revenue / Accounts Payable	Total	Total Program Expenditures
21st Century Soft Skills	$ 8,765	$ -	$ -	$ 8,765	$ 8,765
AB-104 2016-17	4,512,703	-	358,210	4,154,493	4,154,493
Basic Skills	486,765	-	322,527	164,238	164,238
Basic Skills and Student Outcome Transformation	501,288	51,583	-	552,871	552,871
Block Grants	452,995	-	-	452,995	452,995
Cal Grants	1,286,869	-	1,670	1,285,199	1,285,199
CalWORKs	241,638	-	-	241,638	241,638
Campus Safety	18,547	-	18,547	-	-
CARE	176,186	-	3,420	172,766	172,766
CCC Makerspace	66,132	149,089	-	215,221	215,221
Career Technical Education (CTE) Data Unlocked	50,000	-	-	50,000	50,000
Career Technical Education (CTE) Strong Workforce	1,759,462	162,718	948,318	973,862	973,862
Child Care and Development					
Childcare Tax Bailout	38,002	-	-	38,002	38,002
California State Preschool	410,344	100,165	-	510,509	510,509
Community College Completion Grant	219,800	-	60,800	159,000	159,000
Disabled Students Programs and Services (DSPS)	567,668	-	-	567,668	567,668
Education Futures Initiative	56,250	-	51,587	4,663	4,663
Equal Employment Opportunity	50,897	-	-	50,897	50,897
Extended Opportunity Programs and Services (EOPS)	765,288	-	10,009	755,279	755,279
First 5 ECE Counselors	50,057	47,139	-	97,196	97,196
First 5 Tech Assistance	-	1,282	-	1,282	1,282
Foster & Kinship Care Education (FKCE)	110,879	-	-	110,879	110,879
Foster & Kinship Care Education (FKCE):					
Commercial Sexual Exploitation of Children (CSEC)	3,300	4,463	-	7,763	7,763
Full-Time Student Success Grant (FTSSG)	680,500	-	96,500	584,000	584,000
Guided Pathways	231,709	-	189,730	41,979	41,979
Hunger Free Support	15,496	-	15,496	-	-
Innovation and Effectiveness	61,694	-	-	61,694	61,694
Innovation Award	2,203,723	-	2,037,021	166,702	166,702
Lottery- Proposition 20	449,022	-	-	449,022	449,022
Mathematics-Engineering-Science-Achievement (MESA)	33,860	57,949	-	91,809	91,808
Nonresident Dreamer Emergency Aid Program	87,000	-	6,000	81,000	81,000
Nursing Assessment, Remediation, & Retention	34,200	51,300	-	85,500	85,500
Nursing Enrollment Growth	45,640	68,460	-	114,100	114,100
OSHPD - Song Brown	5,072	59,814	-	64,886	64,887
Student Equity Plan (ESP)	1,037,926	-	-	1,037,926	1,037,926
Student Financial Aid Administration (SFAA)	351,175	-	-	351,175	351,175
Student Success	2,436,475	-	39,667	2,396,808	2,396,808
Veteran Resource Center	22,407	-	21,302	1,105	1,105
Youth Empowerment Strategies for Success (YESS-ILP)	8,863	10,802	-	19,665	19,665

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT
Annual Attendance as of June 30, 2018

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2017 only)			
1. Noncredit	-	-	-
2. Credit	706	-	706
B. Summer Intersession (Summer 2018) - Prior to July 1, 2017)			
1. Noncredit	-	-	-
2. Credit	144	-	144
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
a. Weekly Census Contact Hours	4,811	-	4,811
b. Daily Census Contact Hours	252	-	252
2. Actual Hours of Attendance Procedure Courses			
a. Noncredit	3	-	3
b. Credit	594	-	594
3. Independent Study/Work Experience			
a. Weekly Census Contact Hours	587	-	587
b. Daily Census Contact Hours	262	-	262
c. Noncredit Independent Study/ Distance Education Courses	-	-	-
D. Total FTES	7,359	-	7,359
Supplemental Information:			
E. In-Service Training Courses (FTES)	344	-	344
H. Basic Skills Courses and Immigrant Education			
a. Noncredit	1	-	1
b. Credit	344	-	344
CCFS 320 Addendum			
CDCP Noncredit FTES	-	-	-
Centers FTES			
a. Noncredit	2	-	2
b. Credit	441	-	441

See accompanying note to supplementary information.

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

HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2018

General fund		$ 11,088,355
Debt service fund		11,062,441
Special revenue funds		812,755
Capital projects funds		71,484,089
Enterprise funds		462,665
Internal service funds		2,447,208
Fiduciary fund - student financial aid		-
Total fund balances - business-type activity funds		97,357,513
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. However, capital assets, net of accumulated depreciation are added to total net assets.		
Total District capital assets	$ 159,101,467	
Less: Proprietary Fund capital assets	(39,374)	
		159,062,093
In government funds, deferred outflows and inflows of resources relating to pensions and OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions and OPEB are reported:		
Deferred outflows of resources relating to pensions	$ 16,924,504	
Deferred outflows of resources - OPEB	217,378	
Deferred inflows of resources relating to pensions	(2,511,000)	
		14,630,882
Unmatured interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		(3,336,471)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2018 consisted of:		
General obligation bonds	$ (212,336,666)	
Bond premiums	(6,470,283)	
Accreted interest	(25,571,912)	
Net OPEB liability	(956,562)	
Net pension liability	(52,774,000)	
		(298,109,423)
Losses on refundings of debt are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding of the debt.		10,210,064
Total net position - business-type activities		$ (20,185,342)

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
For the Year Ended June 30, 2018

		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	$ 13,667,660	$ -	$ 13,667,660	$ 13,793,227	$ -	$ 13,793,227
Other	1300	-	-	-	-	-	-
Total instructional salaries		13,667,660	-	13,667,660	13,793,227	-	13,793,227
Non-instructional salaries:							
Contract or regular	1200	-	-	-	3,428,692	-	3,428,692
Other	1400	-	-	-	-	-	-
Total non-instructional salaries		-	-	-	3,428,692	-	3,428,692
Total academic salaries		13,667,660	-	13,667,660	17,221,919	-	17,221,919
Classified Salaries							
Non-instructional salaries:							
Regular status	2100	-	-	-	7,932,478	-	7,932,478
Other	2300	-	-	-	-	-	-
Total non-instructional salaries		-	-	-	7,932,478	-	7,932,478
Instructional aides:							
Regular status	2200	606,985	-	606,985	606,985	-	606,985
Other	2400	-	-	-	-	-	-
Total instructional aides		606,985	-	606,985	606,985	-	606,985
Total classified salaries		606,985	-	606,985	8,539,463	-	8,539,463
Employee benefits	3000	4,624,629	-	4,624,629	10,092,681	-	10,092,681
Supplies and materials	4000	-	-	-	375,836	-	375,836
Other operating expenses	5000	770,883	-	770,883	5,020,761	-	5,020,761
Student Internship	5000	-	-	-	830	-	830
Student Travel	6420	-	-	-	2,412	-	2,412
Total expenditures prior to exclusions		$ 19,670,157	$ -	$ 19,670,157	$ 41,253,902	$ -	$ 41,253,072

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
For the Year Ended June 30, 2018

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
Exclusions	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Activities to exclude:							
Instructional staff-retirees' benefits and retirement incentives	5900	$ 97,237	$ -	$ 97,237	$ -	$ -	$ -
Student health services above amount collected	6441	-	-	-	-	-	-
Student transportation	6491	-	-	-	-	-	-
Noninstructional staff-retirees' benefits and retirement incentives	6740	-	-	-	137,978	-	137,978
Objects to exclude:							
Rents and leases	5060	-	-	-	7,496	-	7,496
Lottery expenditures		-	-	-	-	-	-
Academic salaries	1000	-	-	-	-	-	-
Classified salaries	2000	-	-	-	-	-	-
Employee benefits	3000	-	-	-	-	-	-
Supplies and materials:	4000						
Software	4100	-	-	-	-	-	-
Books, magazines and periodicals	4200	-	-	-	-	-	-
Instructional supplies and materials	4300	-	-	-	-	-	-
Noninstructional supplies and materials	4400	-	-	-	-	-	-
Total supplies and materials		-	-	-	-	-	-
Other operating expenses and services	5000	-	-	-	1,540,396	-	1,540,396
Capital outlay	6000	-	-	-	-	-	-
Library books	6300	-	-	-	-	-	-
Equipment:	6400						
Equipment - additional	6410	-	-	-	-	-	-
Equipment - replacement	6420	-	-	-	-	-	-
Total equipment		-	-	-	-	-	-
Total capital outlay		-	-	-	-	-	-
Other outgo	7000	-	-	-	466,116	-	466,116
Total exclusions		$ 97,237	$ -	$ 97,237	$ 2,151,986	$ -	$ 2,151,986
Total for ECS 84362, 50% Law		$ 19,572,920	$ -	$ 19,572,920	$ 39,101,916	$ -	$ 39,101,916
Percent of CEE (instructional salary cost /Total CEE)		50.06 %	-	50.06 %	100%	-	100%
50% of current expense of education					$ 19,550,958	$ -	$ 19,550,958

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
PROP 55 EPA EXPENDITURE REPORT
For the Year Ended June 30, 2018

EPA Proceeds: $ 6,051,705

Activity Classification	Activity Code (0100-5900)	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Total EPA	-	$ 6,051,705	$ -	$ -	$ 6,051,705

See accompanying note to supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Hartnell Community College District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, Cost Principles for Educational Institutions or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

B - Schedule of State Financial Awards

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

C - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

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

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

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

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

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

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

G - Prop 55 EPA Expenditure Report

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

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Hartnell Community College District
Salinas, California

Report on Compliance with State Laws and Regulations

We have audited the compliance of Hartnell Community College District with the types of compliance requirements described in Section 400 of the California State Chancellor's Office's *California Community College Contracted District Audit Manual (CDAM)* that are applicable to community colleges in the State of California for the year ended June 30, 2018:

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Hartnell Community College District's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *California State Chancellor's Office's California Community College Contracted District Audit Manual* (Audit Manual). Those standards and the Audit Manual require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Hartnell Community College District's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Hartnell Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of Hartnell Community College District's compliance with those requirements.

(Continued)

Opinion on Compliance with State Laws and Regulations

In our opinion, Hartnell Community College District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2018.

Purpose of this Report

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

Crowe LLP

Crowe LLP

Sacramento, California
November 14, 2018

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

Board of Trustees
Hartnell Community College District
Salinas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the discretely presented component unit and fiduciary activities of Hartnell Community College District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hartnell Community College District's basic financial statements, and have issued our report thereon dated November 14, 2018. The financial statements of Hartnell College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instance of reportable noncompliance associated with Hartnell College Foundation.

Internal Control Over Financial Reporting

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

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

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

Crowe LLP

Crowe LLP

Sacramento, California
November 14, 2018

Crowe LLP
Independent Member Crowe Global

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

Board of Trustees
Hartnell Community College District
Salinas, California

Report on Compliance for Each Major Federal Program

We have audited Hartnell Community College District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hartnell Community College District's major federal programs for the year ended June 30, 2018. Hartnell Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

(Continued)

Opinion on Each Major Federal Program

In our opinion, Hartnell Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Crowe LLP

Crowe LLP

Sacramento, California
November 14, 2018

FINDINGS AND RECOMMENDATIONS

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007, 84.033, 84.063, 84.000	Student Financial Aid Cluster

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

STATE AWARDS

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

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

STATUS OF PRIOR YEAR

FINDINGS AND RECOMMENDATIONS

Finding/Recommendation	Current Status	District Explanation If Not Fully Implemented

No matters were reported.