

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE
DISTRICT
ORANGE COUNTY**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2018**

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the fiduciary activities and the aggregate discretely presented component units of the South Orange County Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

supplementary section, including the schedule of expenditures of federal awards, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Glendora, California

October 18, 2018

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

INTRODUCTION TO THE BASIC FINANCIAL STATEMENTS

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

ACCOUNTING STANDARDS

In June 1999, the Governmental Accounting Standards’ Board (GASB) released Statement No. 34, “Basic Financial Statement and Management’s Discussion and Analysis for State and Local Governments,” which changed the reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, “Basic Financial Statement and Management’s Discussion and Analysis for Public Colleges and Universities,” which applies these reporting standards to public colleges and universities. The South Orange County Community College District continues to present its financial statements in this reporting format.

The following management’s discussion and analysis provides an overview of the financial position and activities of the South Orange County Community College District’s Financial Report for the year ended June 30, 2018. The report includes three basic financial statements that provide information on the District as a whole:

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

Each of these statements will be reviewed and significant events discussed. The previous year’s financial information is also provided for comparison.

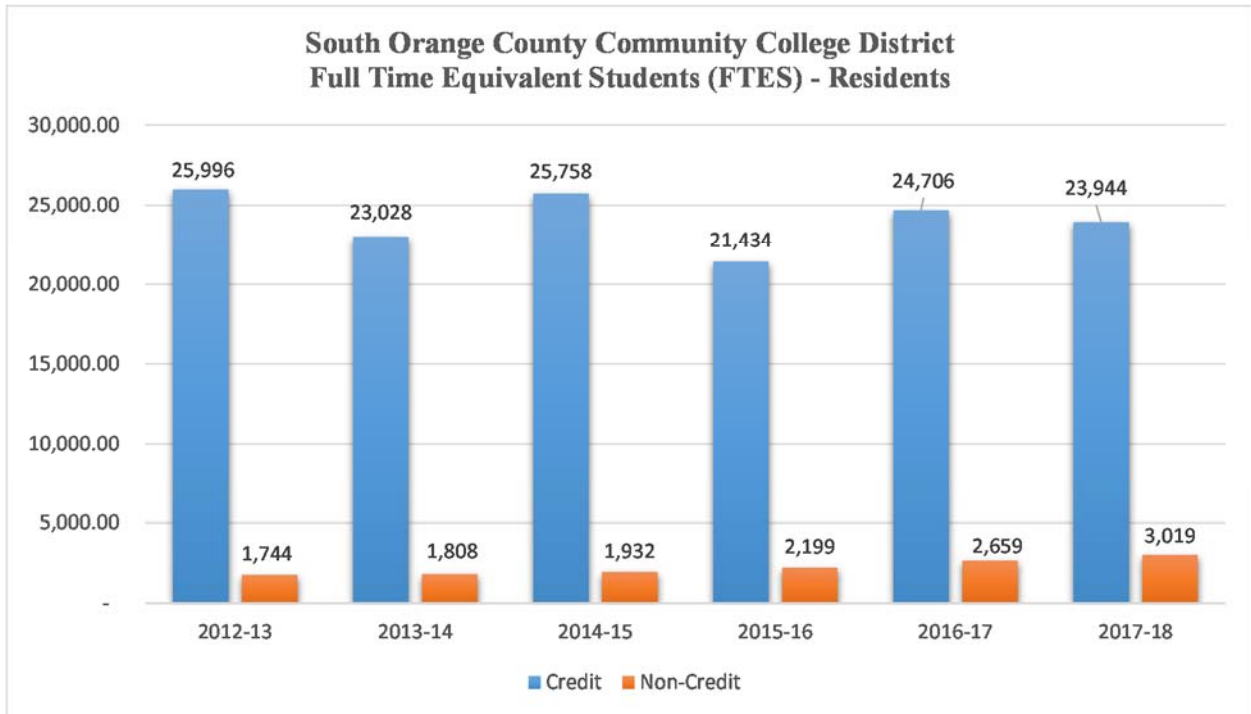
FINANCIAL AND ENROLLMENT HIGHLIGHTS

The District ended the year with a strong fund balance. The ability to maintain a prudent reserve of 7.5% affords cash flow stability for the District without external borrowing. Property taxes

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

continue to provide a reliable revenue source that allows the District some protection from state budget cuts and forced workload reductions.

Reported resident enrollments at the colleges decreased slightly in fiscal year 2017-2018 by 1.5% from the prior year. This is primarily the result of a reduction in class offerings to improve productivity. A history of reported resident student enrollments is provided below.



Non-resident enrollment decreased by 4% in fiscal year 2017-18. In fiscal year 2016-17 the District reported 1,752 FTES and in fiscal year 2017-18 it decreased to 1,674 FTES.

STATEMENT OF NET POSITION

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Assets			
Current assets	\$ 427,122,770	\$ 378,793,738	\$ 48,329,032
Non-current assets	<u>390,494,427</u>	<u>371,272,610</u>	<u>19,221,817</u>
Total Assets	<u>817,617,197</u>	<u>750,066,348</u>	<u>67,550,849</u>
Deferred Outflows of Resources	<u>63,782,101</u>	<u>41,275,283</u>	<u>22,506,818</u>
Liabilities			
Current liabilities	67,283,786	52,753,129	14,530,657
Non-current liabilities	<u>224,614,804</u>	<u>193,199,443</u>	<u>31,415,361</u>
Total Liabilities	<u>291,898,590</u>	<u>245,952,572</u>	<u>45,946,018</u>
Deferred Inflows of Resources	<u>17,426,629</u>	<u>10,572,054</u>	<u>6,854,575</u>
Net Position			
Net investment in capital assets	384,476,461	367,017,057	17,459,404
Restricted	68,467,051	84,613,006	(16,145,955)
Unrestricted	<u>119,130,567</u>	<u>83,186,942</u>	<u>35,943,625</u>
Total Net Position	<u>\$ 572,074,079</u>	<u>\$ 534,817,005</u>	<u>\$ 37,257,074</u>

Assets

Total Assets increased approximately \$68 million, a percentage increase of 9%. The major changes affecting total assets are listed below:

- Current assets increased approximately \$48 million. This was due primarily to an increase in cash for property tax revenues and an increase in the value of the District's investments in the OPEB Retiree Health Benefit Liability Trust.
- Non-current assets increased \$19 million over the prior year primarily due to increases in capital assets and construction in progress for projects such as the Irvine Valley College ATEP building, ATEP Infrastructure project, and the Saddleback College Stadium.

Liabilities

Total liabilities increased by approximately \$46 million; an increase of 19%. The major changes affecting total liabilities are listed on the following page:

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

- Current liabilities increased approximately \$14.5 million. Accounts payable increased approximately \$5.4 million for capital outlay projects. Deferred revenue increased by approximately \$8.8 million for state categorical programs for Physical Plant funds, Adult Education and Strong Workforce funding.
- Non-current liabilities increased by \$31.4 million as a result of an increase of \$32.7 million in the Net Pension Liability, a decrease of \$1.9 million for the Early Retirement Incentive program, and a \$381 thousand increase in compensated absences as described in Note 11.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

	2018	2017*	\$ Change	% Change
Operating Revenues				
Student tuition and fees	\$ 50,928,734	\$ 50,193,958	\$ 734,776	1.46%
Less: scholarship discount & allowance	(12,557,394)	(10,898,064)	(1,659,330)	15.23%
Net tuition & fees	<u>38,371,340</u>	<u>39,295,894</u>	<u>(924,554)</u>	<u>-2.35%</u>
Grants and contracts, noncapital:				
Federal	2,277,346	2,955,543	(678,197)	-22.95%
State	27,834,639	25,945,264	1,889,375	7.28%
Local	2,799,122	1,797,062	1,002,060	55.76%
Subtotal	<u>32,911,107</u>	<u>30,697,869</u>	<u>2,213,238</u>	<u>7.21%</u>
Total Operating Revenues	<u>71,282,447</u>	<u>69,993,763</u>	<u>1,288,684</u>	<u>1.84%</u>
Operating Expenses				
Salaries	144,591,564	144,218,652	372,912	0.26%
Benefits	76,865,240	66,596,602	10,268,638	15.42%
Supplies, materials, & other operating expenses	30,571,415	37,357,365	(6,785,950)	-18.16%
Financial aid	27,418,161	28,960,083	(1,541,922)	-5.32%
Utilities	4,447,023	4,607,626	(160,603)	-3.49%
Depreciation	23,672,801	18,372,925	5,299,876	28.85%
Total Operating Expenses	<u>307,566,204</u>	<u>300,113,253</u>	<u>7,452,951</u>	<u>2.48%</u>
Operating Loss	(236,283,757)	(230,119,490)	(6,164,267)	2.68%
Non-operating Revenues (Expenses)				
State apportionment, non-capital	5,715,886	6,994,156	(1,278,270)	-18.28%
Local property taxes	211,200,521	196,566,594	14,633,927	7.44%
Federal grants and contracts, noncapital	23,083,397	25,210,852	(2,127,455)	-8.44%
State taxes & other revenues	14,794,120	13,788,727	1,005,393	7.29%
Investment income(loss) - noncapital	1,798,977	1,809,172	(10,195)	-0.56%
Total Non-operating Revenues (Expenses)	<u>256,592,901</u>	<u>244,369,501</u>	<u>12,223,400</u>	<u>5%</u>
Income Before Other Revenues and Losses	20,309,144	14,250,011	6,059,133	42.52%
Other Revenues, Expenses, Gains and Losses				
State apportionments, capital	1,872,838	25,212	1,847,626	7328.36%
Local revenues, grants and gifts, capital	12,469,026	10,793,101	1,675,925	15.53%
Interest and investment income, capital	2,851,900	1,788,389	1,063,511	59.47%
Loss on disposal of equipment	(245,834)	-	(245,834)	-
Total Other Revenues, Expenses, Gains and Losses	<u>16,947,930</u>	<u>12,606,702</u>	<u>4,341,228</u>	<u>34.44%</u>
Change in Net Position	37,257,074	26,856,713	10,400,361	38.73%
Net Position - Beginning	534,817,005	499,875,468	34,941,537	6.99%
Cumulative effect of change in accounting principles	-	8,084,824	-	-
Net Position - Beginning	<u>534,817,005</u>	<u>507,960,292</u>	<u>26,856,713</u>	<u>5.29%</u>
Net Position - Ending	<u>\$ 572,074,079</u>	<u>\$ 534,817,005</u>	<u>\$ 37,257,074</u>	<u>6.97%</u>

* Amounts have been reclassified to conform to current year reporting

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

Operating Revenues

Total Operating Revenues increased by approximately \$1.3 million, an increase of 2%.

- Net tuition and fees experienced a decrease of \$924 thousand, approximately 2%. Fee revenue increased by \$735 thousand primarily as a result of a higher non-resident tuition rate. Scholarship discounts and allowances increased by \$1.7 million from increased demand in state Promise Grant fee waivers.
- Non capital grants and contracts increased \$2.2 million, an increase of 7%. Factors contributing to this include an \$500 thousand decrease for the completed federal TAACCCT grant, and a \$1.9 million increase in state grants such as Strong Workforce and Student Success, and \$1 million increase in local funds from higher rents and sales.

Operating Expenses

Total Operating Expenses increased by 2.5%, approximately \$7.5 million. Items of significance affecting the changes include:

- Salaries and benefits increased by approximately \$10.6 million, an increase of 5%. Salaries increased slightly by \$373 thousand (0.3%). Benefits increased by \$10.3 million or 15.4% due to higher pension contribution rates, retirement incentives, and higher benefit premiums.
- Supplies, materials and other operating expenses decreased by \$6.7 million, a decrease of 18%. The decrease was primarily from lower capital outlay related costs for projects.
- Financial aid decreased by \$1.5 million due to reduced enrollments.
- Depreciation increased by \$5.3 million (29%) due to new buildings and other capital assets coming on-line in the last 2 years.

Non-Operating Revenues (Expenses)

Non-Operating Revenues increased by \$12 million, 5%, primarily due to the net effect of the following:

- Non-capital State apportionment decreased by \$1.2 million, a 18% decrease. This is mostly due to state prior year funding corrections.
- The 7% increase of \$14.6 million in local property tax reflects the moderate growth trend of the local property tax base.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

- Non-capital Federal grants and contracts decreased by \$2.1 million, 8%, primarily due to a reduction in disbursements of student financial aid.
- State taxes and other revenues increased \$1 million, 7%, due to increased state resources for the state teachers' pension plan.

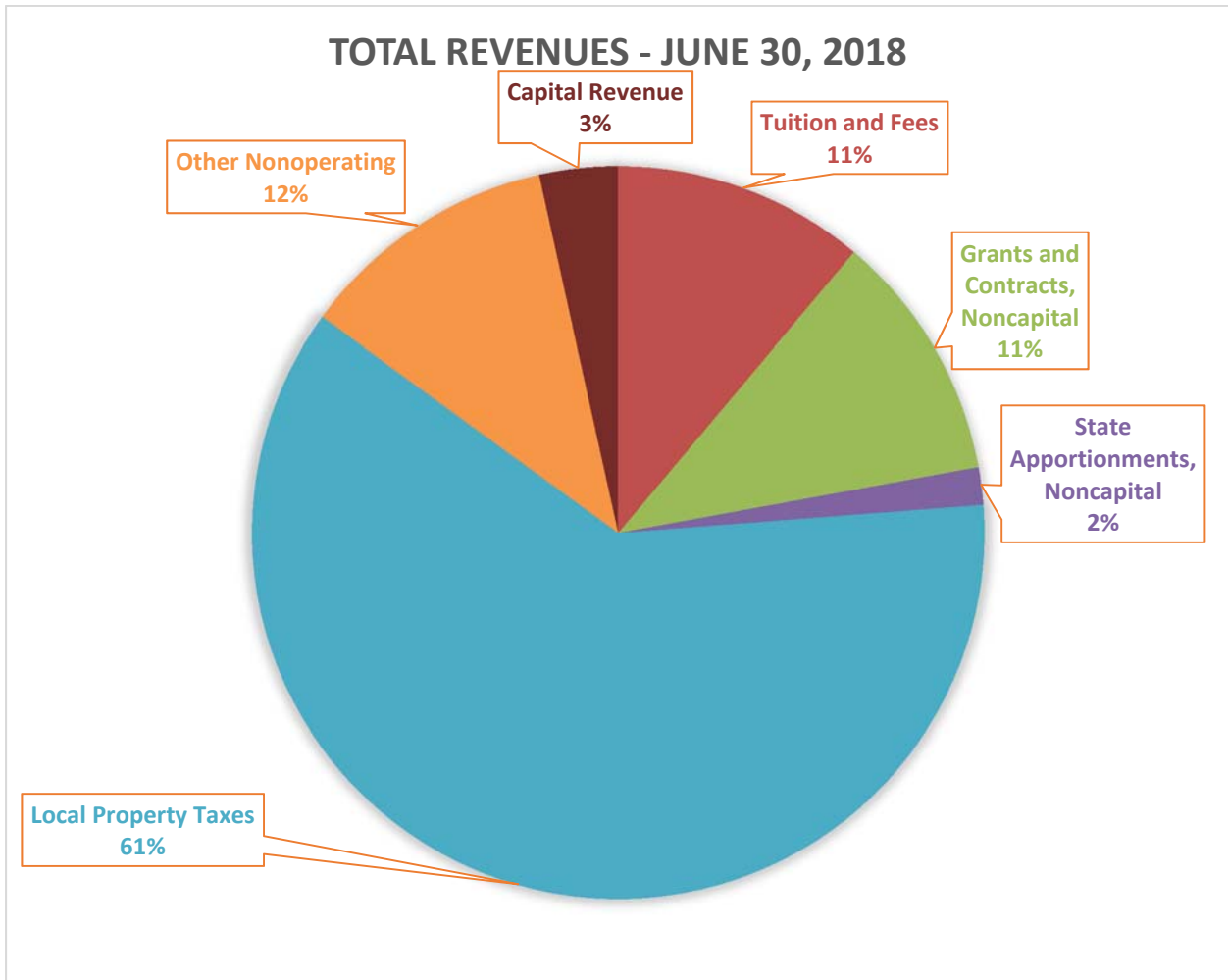
Capital contributions

Capital contributions increased by 34%, approximately \$4.3 million.

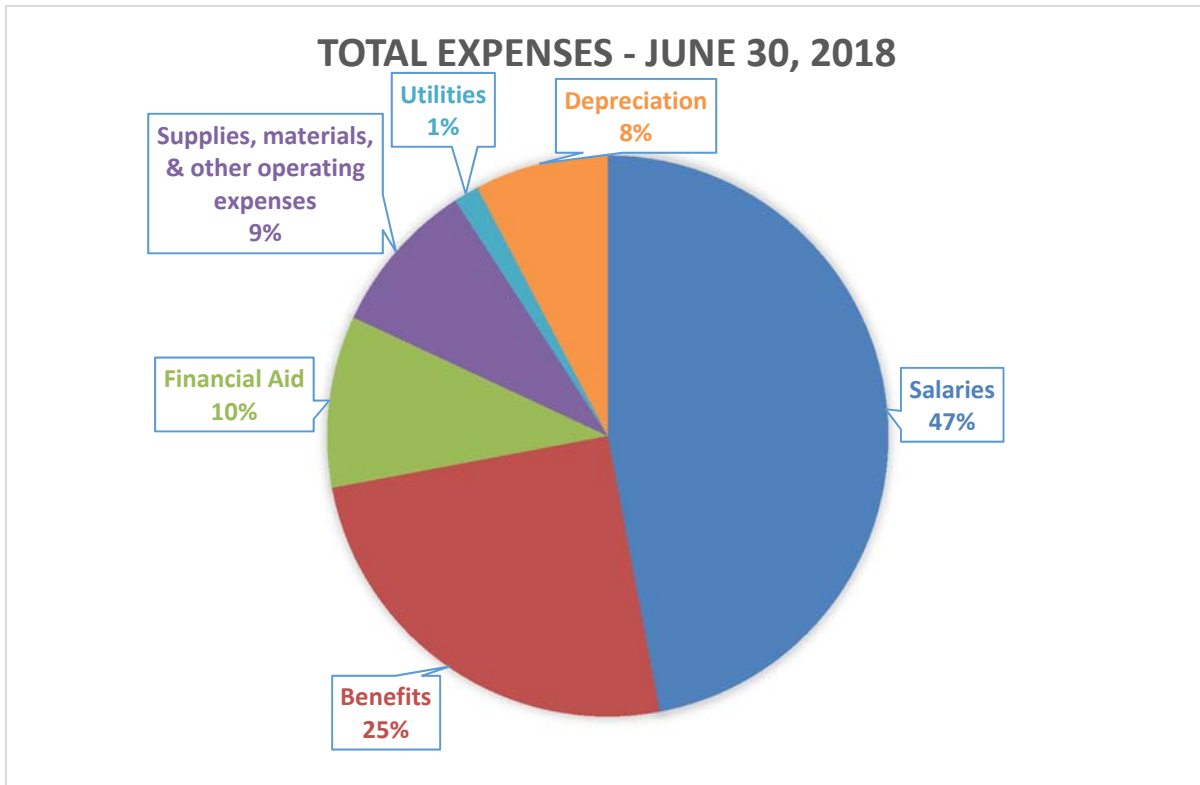
- State apportionments for capital increased \$1.8 million due to the receipt of funds for Proposition 39 energy efficiency projects.
- Local revenues for capital increased by \$1.7 million due to additional property tax funds from the prior redevelopment agencies.
- Interest and investment income for capital increased \$1 million, 59%, due to improved return rates and larger cash balances in the capital outlay fund.

The following two pie charts depict the breakdown and percentages of the major components in Total Revenues and Total Expenses as of June 30, 2018.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**



**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**



District's Fiduciary Responsibility

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the District had approximately \$384 million invested in net capital assets. Total capital assets of \$592.7 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of \$208.2 million. In fiscal year 2017-2018, there were net capital asset additions in the amount of \$40 million and net depreciation expense of \$23.7 million.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

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

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Land, Artwork and construction in progress	\$ 125,094,529	\$ 95,000,623	\$ 30,093,906
Buildings and equipment	467,604,568	456,740,788	10,863,780
Accumulated depreciation	<u>(208,222,636)</u>	<u>(184,724,354)</u>	<u>(23,498,282)</u>
Total Capital Assets	<u>\$ 384,476,461</u>	<u>\$ 367,017,057</u>	<u>\$ 17,459,404</u>

Debt

At June 30, 2018, the District had \$227.2 million in debt, an increase of \$31.5 million. The major portion of the increase is related to the net pension liability. Note 11 provides additional information on long-term liabilities. A comparison is summarized below:

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Compensated absences	\$ 5,532,981	\$ 5,151,875	\$ 381,106
Claims liability	554,637	459,777	94,860
Early retirement incentive	7,420,610	9,275,763	(1,855,153)
Proportionate Share of Medicare Premiums	185,111	-	185,111
Net pension liability	<u>213,524,507</u>	<u>180,807,787</u>	<u>32,716,720</u>
Total Long-Term Liabilities	<u>\$ 227,217,846</u>	<u>\$ 195,695,202</u>	<u>\$ 31,522,644</u>

ECONOMIC OUTLOOK AND FACTORS AFFECTING NEXT YEAR'S BUDGET

The fiscal year 2018-2019 state budget for community colleges established a new funding formula that incorporates funding for student enrollments (base allocation), low income students (supplemental allocation), and completion metrics (student success incentive allocation). The funding included a 2.71% cost of living adjustment (COLA), \$151.3 million base allocation increase, 1% for growth funding statewide, and \$58.7 million for hold-harmless funds all tied to implementation of the new funding formula. The District's calculated growth rate is 0.5%, although the colleges are not expected to grow above current funding levels.

Since the District does not receive general apportionment funds from the state, and in order to have time to evaluate the impact of the new funding formula, COLA was funded to the colleges using the prior allocation model with property tax revenues. The new funding formula will be incorporated into a new District funding model for the fiscal year 2019-2020 budget

The District has been identified as a "locally funded" district since 1999-2000, meaning its primary source of revenue comes from local property taxes, not state apportionment. The fiscal

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

year 2018-2019 adopted budget assumes an increase in property tax revenue of 3% over fiscal year 2017-2018 actual receipts. This assumption is based on prior years' history and conservative estimations provided by the county auditor/controller's office. Property tax receipts have been a stable revenue source with moderate growth in recent years. The District continues to experience sufficient revenue to maintain funding of the colleges and allow for future capital projects. Excess funds over what would be received from the state funding formula are used to pay for long-term debt, one-time expenditures, and capital outlay needs.

The state budget continues to provide increased funding for student services including funds for veteran's services, guided pathways, and California college promise programs. Funds were also provided for facility scheduled maintenance, instructional equipment and increased full-time faculty.

The most recent actuarial study was completed for the Districts other post-employment benefits (OPEB) liability in January 2018. Based on a discount rate of 6%, the actuarial accrued surplus is approximately \$6 million. The District has budgeted sufficient funds to meet the actuarially determined contribution for fiscal year 2018-2019. The next actuarial study is scheduled to be completed in January 2019.

In 2015, the legislature approved increases in the employer STRS contribution rate through fiscal year 2020-2021 in order to address the large unfunded liability. For fiscal year 2018-2019, the rate increased from 14.43% to 16.28%. Projected rate increases for PERS are also expected to be significant in the coming years. For fiscal year 2018-2019, the PERS rate increased from 15.531% to 18.062%. The District created a Pension Stability Trust to pre-fund the increased costs anticipated through fiscal year 2021-2022.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

	Primary Government	Component Units
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 350,484,382	\$ 488,732
Investments	62,667,950	610,637
Accounts receivable, net	10,047,747	69,652
Inventory	30,206	-
Prepaid expenses	3,458,940	53,826
Due from component units	413,167	-
Due from fiduciary funds	20,378	-
Total Current Assets	427,122,770	1,222,847
Non-Current Assets:		
Contributions Receivable, net of discount	-	920,559
OPEB asset	6,017,966	-
Investments, at fair value	-	11,992,273
Capital assets, net of accumulated depreciation	384,476,461	-
Total Non-Current Assets	390,494,427	12,912,832
Total Assets	817,617,197	14,135,679
<u>Deferred Outflows of Resources</u>		
Deferred outflows - pension	63,782,101	-
Total Deferred Outflows of Resources	63,782,101	-
Total Assets and Deferred Outflows of Resources	\$ 881,399,298	\$ 14,135,679

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

	Primary Government	Component Units
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	\$ 17,888,555	\$ 53,385
Accrued liabilities	9,193,263	-
Unearned revenue	37,598,926	116
Due to primary government	-	413,167
Current portion of long term liabilities	2,603,042	-
Total Current Liabilities	67,283,786	466,668
Non-Current Liabilities:		
Non-current portion of long term liabilities	224,614,804	-
Total Non-Current Liabilities	224,614,804	-
Total Liabilities	291,898,590	466,668
<u>Deferred Inflows of Resources</u>		
Deferred inflows - OPEB	5,816,981	-
Deferred inflows - pensions	11,609,648	-
Total Deferred Inflow of Resources	17,426,629	-
<u>Net Position</u>		
Net investment in capital assets	384,476,461	-
Restricted for:		
Capital projects	56,473,424	-
Scholarship and loans	1,928	6,378,283
Other special purposes	8,942,324	-
Restricted - nonexpendable	3,049,375	-
Permanently Restricted	-	5,298,171
Unrestricted	119,130,567	1,992,557
Total Net Position	572,074,079	13,669,011
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 881,399,298	\$ 14,135,679

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2018**

	Primary Government	Component Units
Operating Revenues		
Tuition and fees (gross)	\$ 50,928,734	\$ -
Less: Scholarship discounts and allowances	(12,557,394)	-
Net tuition and fees	38,371,340	-
Grants and contracts, non-capital:		
Federal	2,277,346	-
State	27,834,639	-
Local	2,799,122	4,798,370
Total Operating Revenues	71,282,447	4,798,370
Operating Expenses		
Salaries	144,591,564	899,473
Employee benefits	76,865,240	176,255
Supplies, materials, and other operating expenses and services	30,571,415	3,151,464
Financial aid	27,418,161	-
Utilities	4,447,023	-
Depreciation	23,672,801	-
Total Operating Expenses	307,566,204	4,227,192
Operating Income (Loss)	(236,283,757)	571,178
Non-Operating Revenues (Expenses)		
State apportionments, non-capital	5,715,886	-
Local property taxes	211,200,521	-
Federal grants and contracts, non-capital	23,083,397	-
States taxes and other revenue	14,794,120	-
Interest and investment income, non-capital	1,798,977	646,857
Total Non-Operating Revenues (Expenses)	256,592,901	646,857
Income Before Other Revenues, Expenses, Gains and Losses	20,309,144	1,218,035
Other Revenues, Expenses, Gains and (Losses)		
State apportionments, capital	1,872,838	-
Loss on disposal of equipment	(245,834)	-
Interest and investment income, capital	2,851,900	-
Local revenues, grants and gifts, capital	12,469,026	-
Total Other Revenues, Expenses, Gains and Losses	16,947,930	-
Changes in Net Position	37,257,074	1,218,035
Net Position, Beginning of Year	534,817,005	12,450,976
Net Position, End of Year	\$ 572,074,079	\$ 13,669,011

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2018**

	<u>Primary</u>	<u>Component Units</u>
	<u>Government</u>	
Cash Flows From Operating Activities		
Tuition and fees	\$ 41,223,214	\$ -
Federal grants and contracts	2,341,027	-
State grants and contracts	33,474,639	-
Local grants and contracts	2,757,199	3,358,599
Sales	-	300,060
Payments to suppliers	(35,144,635)	(1,461,667)
Payments to/on-behalf of employees	(207,208,885)	(679,120)
Payments to/on-behalf of students	(27,371,432)	(960,684)
Other miscellaneous payments	(335,365)	-
Net cash used by operating activities	<u>(190,264,238)</u>	<u>557,188</u>
Cash Flows From Non-Capital Financing Activities		
State apportionments and receipts	5,715,886	-
Property taxes	211,278,399	-
Grants and gifts for other than capital purposes	37,877,517	-
State tax and other revenues	12,469,026	-
Net cash provided by non-capital financing activities	<u>267,340,828</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities		
State apportionment for capital purposes	1,872,838	-
Local revenue, grants and gifts for capital purposes	91,834	-
Net purchases of capital assets	(36,971,612)	-
Net cash used by capital and related financing activities	<u>(35,006,940)</u>	<u>-</u>
Cash Flows from Investing Activities		
Interest on investments	4,650,877	210,096
Proceeds from sale of investments	-	(3,965,892)
Purchase of investments	(9,681,588)	3,293,439
Net cash used by investing activities	<u>(5,030,711)</u>	<u>(462,357)</u>
Net Change in Cash and Cash Equivalents	37,038,939	94,831
Cash Balance - Beginning of Year	<u>313,445,443</u>	<u>393,901</u>
Cash Balance - End of Year	<u>\$ 350,484,382</u>	<u>\$ 488,732</u>

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2018**

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

	<u>Primary Government</u>	<u>Component units</u>
Cash Used by Operating Activities		
Operating income (loss)	\$ (236,283,757)	\$ 571,178
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	23,672,801	-
Changes in assets and liabilities:		
Receivables, net	(585,432)	(35,189)
Inventory	13,663	-
Prepaid expense	(1,118,282)	(9,193)
Due from component units and fiduciary funds	3,668	-
Deferred outflows of current year pensions	(22,506,818)	-
Accounts payable	1,025,151	135,064
Accrued liabilities	139,931	(104,788)
Net pension liabilities	32,716,720	-
Unearned revenue	8,760,031	116
Compensated absences	(366,782)	-
OPEB asset	(1,762,413)	-
Estimated liability for open claims and IBNR's	1,027,859	-
Supplemental employee retirement plan	(1,855,153)	-
Deferred inflows of pension plans and OPEB	6,854,575	-
Net cash used by operating activities	<u>\$ (190,264,238)</u>	<u>\$ 557,188</u>

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

	Associated Student Government Trust Funds
<u>Assets</u>	
Cash and cash equivalents	\$ 203,212
Investments	80,338
Prepaid expense	6,025
Accounts receivable	237,943
Total Assets	\$ 527,518
<u>Liabilities</u>	
Accounts payable	\$ 9,282
Due to District	20,378
Deferred revenue	82,809
Funds held in trust	79,435
Total Liabilities	191,904
<u>Net Position</u>	
Unrestricted	335,614
Total Net Position	335,614
Total Liabilities and Net Position	\$ 527,518

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2018**

	Associated Student Government Trust Funds
Additions	
Sales and other local revenues	\$ 931,657
Interest income	1,131
Total Additions	<u>932,788</u>
Deductions	
Salaries	95,116
Benefits	41,508
Supplies and materials	65,906
Other operating expenses and services	516,256
Capital outlay	24,865
Student financial aid	<u>143,780</u>
Total Deductions	<u>887,431</u>
Net Changes in Net Position	45,357
Net Position, Beginning of Year	<u>290,257</u>
Net Position, End of Year	<u>\$ 335,614</u>

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF PLAN NET POSITION
June 30, 2018**

	Retiree Health Benefit (OPEB) Trust
<u>Assets</u>	
Investments	\$ 116,478,409
Total Assets	<u>\$ 116,478,409</u>
<u>Liabilities</u>	
Accounts payable	\$ 48,489
Total Liabilities	<u>48,489</u>
<u>Net Position</u>	
Restricted - nonspendable	116,429,920
Total Net Position	<u>116,429,920</u>
Total Liabilities and Net Position	<u>\$ 116,478,409</u>

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CHANGES IN PLAN NET POSITION
For the Fiscal Year Ended June 30, 2018**

	Retiree Health Benefit (OPEB) Trust
Additions	
Interest income	\$ 6,789,058
Other local revenue	<u>4,610,000</u>
Total Additions	<u>11,399,058</u>
Deductions	
Benefits	4,644,463
Other operating expenses and services	<u>388,559</u>
Total Deductions	<u>5,033,022</u>
Net Changes in Net Position	6,366,036
Net Position, Beginning of Year	<u>110,063,884</u>
Net Position, End of Year	<u>\$ 116,429,920</u>

See accompanying notes to the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

Based upon the application of the criteria listed above, the Facilities Corporation 2011 of the South Orange County Community College District (Corporation) would be included in the District's reporting entity as a blended component unit. The Corporation had no activity for the fiscal year 2017-18; the Corporation has been dissolved in fiscal year 2018-19.

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Retiree Health Benefit OPEB Trust (the Trust): The Trust is an irrevocable governmental trust pursuant to Section 115 of the Internal Revenue Code for the purpose of funding certain post-employment benefits other than pensions. The Trust Board of Authority comprised of the Vice Chancellor of Business Services, Vice Chancellor of Human Resources and Employer/Employee Relations, District Executive Director of Fiscal Services/Comptroller, Vice President of Administrative Services, Saddleback College, and the Vice President of Administrative Services, Irvine Valley College, provide oversight over Trust investment and plan administration. As such, the District acts as the fiduciary of the Trust. Separate financial statements are not prepared for the Trust.

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

Financial Statement Presentation

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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

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

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

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

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

Cash and Cash Equivalents

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

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

Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Material receivables are considered fully collectible.

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

Inventories

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

Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

Capital Assets

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

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

years for building and land improvements, 8 years for equipment and vehicles and 3 years for technology.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position by the District that is applicable to a future reporting period. The deferred outflows of resources related to pensions resulted from District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans and the effects of actuarially-determined changes to the pension plan. These amounts are deferred and amortized as detailed in Note 9 and Note 10 to the financial statements.

Accounts Payable and Accrued Liabilities

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

Unearned Revenue

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

Compensated Absences

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

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

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

Net Pension Liability

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Deferred Inflows of Resources

Deferred Inflows – OPEB: The deferred inflows of resources related to OPEB benefits results from the difference between the estimated and actual return on OPEB plan investments, changes in assumptions, and the difference between expected and actual experience. These amounts are deferred and amortized as detailed in Note 10 to the financial statements

Deferred Inflows – Pensions: Deferred inflows of resources represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources results from the effects of actuarially-determined changes to the pension plan. These amounts are deferred and amortized as detailed in Note 9 to the financial statements.

Net Position

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

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

Restricted Net Position – Nonexpendable: Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State Apportionments

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

The District does receive state apportionments for categorical programs. These allocations are based on various financial and statistical information from the current and previous years. The District also receives funding from the State for education protection account based on FTES and full-time faculty.

Property Taxes

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

The District reports real and personal property tax on an accrual basis. A receivable has been accrued in these financial statements to reflect the amount of property taxes receivable as of June 30, 2018.

Classification of Revenues

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported gross of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, and other Federal, state or nongovernmental programs are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Classification of Revenues – Proprietary Funds

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

Postemployment Benefits Other Than Pensions (OPEB).

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

Estimates

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

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2018, \$8,364,243 of the District's bank balance of \$8,616,619 was exposed to credit risk as uninsured and uncollateralized.

Cash in County Treasury

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the Orange County Treasury as part of the common investment pool. At June 30, 2018

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2018

NOTE 2: DEPOSITS AND INVESTMENTS

total Cash in County is \$341,001,386. The District is considered an involuntary participant in the investment pool. These pooled funds are recorded at amortized cost which approximates fair value. Fair value of the pooled investments at June 30, 2018 is measured at 99.58% of amortized cost. The District's investments in the fund are considered to be highly liquid and reflected in the financial statements as cash and cash equivalents in the statement of net position.

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

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

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

Investments

Policies

Under provisions of California Government Code Sections 16430, 53601 and 53602 (and District Board Policy Section 3102), the District may invest in the types of investments shown herein. The District did not violate any provisions of the California Government Code or District Board policy during the year ended June 30, 2018.

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

The District maintains investments with the State of California Local Agency Investment Fund (LAIF) amounting to \$26,690,168 as of June 30, 2018. LAIF pools these funds with other

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 2: DEPOSITS AND INVESTMENTS

governmental agencies and invests in various investment vehicles. LAIF uses amortized cost and current value methods to value the portfolio. Regulatory oversight is provided by the State Pooled Money Investment Board and the Local Investment Advisory Board. LAIF is not subject to categorization to indicate the level of custodial credit risk assumed by the District at year end.

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

Investments and investments with fiscal agent for the governmental funds at June 30, 2018 are presented below. Fiduciary investments of \$80,338 are invested with LAIF.

Investment	Maturities	Fair Value	Standard & Poor's Rating
Mutual Funds - Fixed Income	Not applicable	\$ 35,977,782	Not Rated
LAIF	Not applicable	26,690,168	Not Rated
Total		<u>\$ 62,667,950</u>	

Investment Valuation

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at June 30, 2018 are presented below:

Investment	Costs	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mutual Funds - Fixed Income	\$ 35,977,782	\$ 35,977,782	\$ -	\$ -
Total	<u>\$ 35,977,782</u>	<u>\$ 35,977,782</u>	<u>\$ -</u>	<u>\$ -</u>

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 2: DEPOSITS AND INVESTMENTS

policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018 consists of the following:

<u>Accounts Receivable</u>	<u>June 30, 2018</u>
Federal and state	\$ 5,185,085
Property tax	3,182,302
Miscellaneous	1,680,360
Total accounts receivable	<u>\$ 10,047,747</u>

NOTE 4: INTERFUND TRANSACTIONS

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 5: CAPITAL ASSETS AND DEPRECIATION

The following provides a summary of changes in capital assets for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 42,262,154	\$ -	\$ -	\$ 42,262,154
Artwork	-	37,100	-	37,100
Construction in progress	52,738,469	39,060,137	9,003,331	82,795,275
Total capital assets not being depreciated	<u>95,000,623</u>	<u>39,097,237</u>	<u>9,003,331</u>	<u>125,094,529</u>
Capital assets being depreciated:				
Site improvements	110,908,422	578,793	1,335,100	110,152,115
Buildings	300,201,940	6,097,225	-	306,299,165
Equipment	45,630,426	5,943,215	420,353	51,153,288
Total capital assets being depreciated	<u>456,740,788</u>	<u>12,619,233</u>	<u>1,755,453</u>	<u>467,604,568</u>
Less accumulated depreciation for:				
Site improvements	(77,048,649)	(5,802,168)	-	(82,850,817)
Buildings	(82,769,433)	(9,304,901)	-	(92,074,334)
Equipment	(24,906,272)	(8,565,732)	(174,519)	(33,297,485)
Total accumulated depreciation	<u>(184,724,354)</u>	<u>(23,672,801)</u>	<u>(174,519)</u>	<u>(208,222,636)</u>
Depreciable assets, net	<u>272,016,434</u>	<u>(11,053,568)</u>	<u>1,580,934</u>	<u>259,381,932</u>
Governmental activities capital assets, net	<u>\$ 367,017,057</u>	<u>\$ 28,043,669</u>	<u>\$ 10,584,265</u>	<u>\$ 384,476,461</u>

NOTE 6: LEASES

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

Year Ending June 30,	Lease Payment
2019	\$ 174,298
2020	180,398
2021	83,984
Total	<u>\$ 438,680</u>

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

The District also receives \$2.7 million annually as rent for the land that the Promenade Apartments is located on. This agreement expires on September 1, 2075.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 7: RENTAL INCOME

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

Year Ending June 30,	Lease Income
2019	\$ 2,807,509
2020	2,891,734
2021	2,978,486
2022	3,067,840
2023	3,159,876
2024-2027	17,279,495
2028-2032	20,031,671
2033-2037	23,222,197
2038-2042	26,920,890
2043-2047	31,208,690
2048-2052	36,179,426
2053-2057	41,941,870
2058-2062	48,622,123
2063-2067	56,366,366
2068-2072	65,344,067
2073-2075	28,964,397
Total	<u>\$ 410,986,637</u>

NOTE 8: SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

The District has a Supplemental Employee Retirement Plan for classified, faculty and management employees. The accumulated future liability for the District at June 30, 2018 is \$7,420,610.

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

A total of 116 employees, 63 classified, 30 faculty and 23 management employees participate in the plan. The total cost to the District is approximately \$9.25 million. The District will pay benefits of \$1.855 million annually through 2022. The liability has been reflected in these financial statements as a long term liability.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

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

As of June 30, 2018, the District's proportionate share of the net pension liabilities, pension expense, and deferred inflows of resources and deferred outflows of resources for each of the retirement plans is as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflows of Resources	Proportionate Share of Deferred Inflows of Resources	Proportionate Share of Pension Expense
CalSTRS - STRP	\$ 119,299,200	\$ 33,733,298	\$ 10,500,261	\$ 10,870,147
CalPERS - Schools Pool Plan	94,225,307	30,048,803	1,109,387	17,888,077
Total	<u>\$ 213,524,507</u>	<u>\$ 63,782,101</u>	<u>\$ 11,609,648</u>	<u>\$ 28,758,224</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

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

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

Provisions and Benefits	CalSTRS-STRP Defined Benefit Program and Supplement Program	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0%-2.4%	2.0%-2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, District and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. The contribution rates for each plan for the year ended June 30, 2018 are presented above and the total District contributions were \$10,603,030.

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

	Balance
	June 30, 2018
Proportionate Share of Net Pension Liability	
District proportionate share of net pension liability	\$ 119,299,200
State's proportionate share of the net pension liability associated with the District	70,576,974
Total	<u>\$ 189,876,174</u>

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2017, the District's proportion was 0.1290%.

For the year ended June 30, 2018, the District recognized pension expense of \$10,870,147 and revenue of \$6,296,493 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 sources herein.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,603,030	\$ -
Difference between expected and actual experience	441,180	2,080,770
Changes in assumptions	22,101,570	-
Changes in proportion	587,518	5,242,221
Net differences between projected and actual earnings on plan investments	-	3,177,270
Total	\$ 33,733,298	\$ 10,500,261

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

Year Ending June 30,	Amortization
2019	\$ (487,250)
2020	4,152,880
2021	2,442,340
2022	(668,710)
2023	3,542,800
2024	3,647,947
Total	\$ 12,630,007

Actuarial Methods and Assumptions

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

Actuarial Methods and Assumptions

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.10%
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%

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

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 and adopted by the CalSTRS Board in February 2017. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2017, the date the current experience study was approved by the board. 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 table shown herein.

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 175,169,100
Current discount rate (7.10%)	119,299,200
1% increase (8.10%)	73,956,990

Changes of Assumptions

During the fiscal year of the measurement date of June 30, 2017, CalSTRS completed an experience study for the period starting July 1, 2010 and ending June 30, 2015. The experience study was adopted by the CalSTRS Board in February 2017. As a result of the study, certain assumptions used in determining the net pension liability of the STRP changed, including the discount rate, price inflation, wage growth, mortality assumptions and the mortality tables used in the actuarial valuation of the net pension liability. The changes to the assumptions as a result of the experience study are shown herein.

<u>Assumptions:</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>
Investment Rate of Return	7.10%	7.60%
Consumer Price of Return	2.75%	3.00%
Wage Growth	3.50%	3.75%

Plan Fiduciary Net Position

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

California Public Employees’ Retirement System (CalPERS)

Plan Description

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

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

Provisions and Benefits	CalPERS-Schools Pool Plan	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits as a percentage of eligible compensation	1.1%-2.5%	1.0%-2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018 are as presented above and the total District contributions were \$7,728,887.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$94,225,307. The net pension liability was measured as of June 30, 2017. The total pension liability for CalPERS 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 District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017 the District's proportion was 0.39474%.

For the year ended June 30, 2018, the District recognized pension expense of \$17,888,077. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Pension Deferred Outflows and Inflows of Resources</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 7,728,887	\$ -
Difference between expected and actual experience	3,375,704	-
Changes of assumptions	13,763,088	1,109,387
Changes in proportion	1,921,573	-
Net differences between projected and actual earnings on plan investments	3,259,551	-
Total	<u>\$ 30,048,803</u>	<u>\$ 1,109,387</u>

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

Year Ending June 30,	Amortization
2019	\$ 6,105,543
2020	9,928,965
2021	6,960,951
2022	(1,784,930)
Total	\$ 21,210,529

Actuarial Methods and Assumptions

Total pension liability for the Schools Pool Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016 used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions	
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.15%
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the table herein.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 9: EMPLOYEE RETIREMENT PLANS

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.38%
Fixed Income	19%	2.27%
Private equity	12%	6.63%
Real estate	11%	5.13%
Infrastructure and Forestland	3%	5.39%
Inflation assets	6%	1.39%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Schools Pool Plan net of investment expenses and without reduction for administrative expenses. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the Schools Pool Plan fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.15%)	\$ 138,638,622
Current discount rate (7.15%)	94,225,307
1% increase (8.15%)	57,383,233

Changes of Assumptions

During the fiscal year of the measurement date of June 30, 2017, the financial reporting discount rate for the Schools Pool Plan was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions represents the unamortized portion of this assumption change.

Plan Fiduciary Net Position

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

Plan Description and Eligibility

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

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

Participant Type:	Number of Participants
Inactive participants currently receiving benefits	340
Inactive participants entitled to but not yet receiving benefit payments	-
Active employees	947
Total	1,287

Funding Policy

The contribution requirements are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an annual adjustment to fully fund the actuarially required contribution. The District currently funds 100% of the pay-as-you-go premiums for covered employees. For the year ended June 30, 2018, the District contributed \$12,133,909 to the plan including the implicit rate subsidy.

Net OPEB Liability (Asset)

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

	Balance June 30, 2018
Total OPEB liability	\$ 110,209,323
Plan fiduciary net position	116,227,289
District's net OPEB liability (asset)	\$ (6,017,966)

Plan fiduciary net position as a percentage of the total OPEB liability (asset)	105%
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SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

The deferred inflows of resources related to OPEB resulting from the net differences between projected and actual earnings on the plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period.

At June 30, 2018, the District reported a deferred inflow of \$5,816,981 for the difference between projected and actual earnings on the plan investments. This amount will be amortized to offset pension expense as follows:

Year Ending June 30,	Amortization
2019	\$ (1,454,245)
2020	(1,454,245)
2021	(1,454,245)
2022	(1,454,246)
Total	<u>\$ (5,816,981)</u>

Investments

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

At June 30, 2018, all Plan investments were in mutual funds. The Plan held no investments in any one organization that represented 5% or more of fiduciary net position.

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was not available.

Investment Valuation

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan’s investments’ fair value measurements at June 30, 2018 are presented on the following page:

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

Investment	Fair Value Measurements Using			
	Costs	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mutual Fund - Fixed Income	\$ 58,357,232	\$ 58,357,232	\$ -	\$ -
Mutual Fund - Domestic Equity	42,245,692	42,245,692	-	-
Mutual Fund - International Equity	10,488,437	10,488,437	-	-
Mutual Fund - Real Estate	5,387,048	5,387,048	-	-
Total	<u>\$ 116,478,409</u>	<u>\$ 116,478,409</u>	<u>\$ -</u>	<u>\$ -</u>

Actuarial Methods and Assumptions

The District’s net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability (asset) used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Liabilities in this report were calculated as of the valuation date and rolled forward to the measurement date using standard actuarial roll-forward techniques.

The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<u>Actuarial Methods and Assumptions</u>	
Valuation date	December 31, 2017
Measurement date	June 30, 2018
Inflation	2.75%
Salary increases	3.00%
Investment rate of return	6%
Healthcare trend rate	6% decreasing to 4% in 2023

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

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2017 (see the discussion of the Plan’s investment policy) are as follows:

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

Asset Class	Asset Allocation	Long-term Expected Real Rate of Return
Fixed income	48%	1.75%
Domestic equities	32%	4.25%
International equities	13%	5.25%
Real estate	7%	4.50%
Cash/liquidity	0%	0.00%

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

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

- The healthcare trend rate changed from 6.5% to 6.0%

Changes in the Net OPEB Liability (Asset)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at December 31, 2016	\$ 104,725,415	\$ 96,106,489	\$ 8,618,926
Changes for the year:			
Service cost	4,353,892	-	4,353,892
Interest	6,387,047	-	6,387,047
Employer contributions	-	12,133,909	(12,133,909)
Net investment income	-	13,243,922	(13,243,922)
Benefit payments	(5,257,031)	(5,257,031)	-
Administrative expenses	-	-	-
Net changes	5,483,908	20,120,800	(14,636,892)
Balances at December 31, 2017	\$ 110,209,323	\$ 116,227,289	\$ (6,017,966)

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 10: POST EMPLOYMENT HEALTHCARE BENEFITS

Discount rate	Net OPEB Liability (Asset)
1% decrease (5.0%)	\$ 7,393,618
Current discount rate (6.0%)	(6,017,966)
1% increase (7.0%)	(17,275,552)

The following presents the District's net OPEB liability calculated using the current healthcare cost trend rate of 6.0 percent decreasing to 4.0 percent, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent decreasing to 3.0 percent) or 1-percentage-point higher (7.5 percent decreasing to 5.0 percent) than the current rate:

Healthcare trend rate	Net OPEB Liability (Asset)
1% decrease (5.0% decreasing to 3.0%)	\$ (18,666,633)
Current healthcare trend rate (6.0 % decreasing to 4.0%)	(6,017,966)
1% increase (7.0% decreasing to 5.0%)	9,409,681

OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of \$7,579,394.

NOTE 11: LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 is shown below.

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amount Due in One Year
Compensated absences	\$ 5,151,875	\$ 381,106	\$ -	\$ 5,532,981	\$ 747,889
Claims liability	459,777	94,860	-	554,637	-
Early retirement incentive	9,275,763		1,855,153	7,420,610	1,855,153
Proportionate Share of Medicare Premiums	-	185,111	-	185,111	-
Net pension liability	180,807,787	32,716,720	-	213,524,507	-
Total	<u>\$ 195,695,202</u>	<u>\$ 33,377,797</u>	<u>\$ 1,855,153</u>	<u>\$ 227,217,846</u>	<u>\$ 2,603,042</u>

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

The District participates in the Medicare Premium Payment (MPP) Program of the California State Teachers' Retirement Plan (the STRP). The District's proportionate share of the liability is 0.044%. As the plan activity and the District's proportionate share of the total OPEB liability is

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2018

NOTE 11: LONG-TERM DEBT

not significant, additional disclosures regarding the plan are not included in these financial statements.

NOTE 12: JOINT POWERS AGREEMENTS

The District participates in five joint powers agreement (JPA) entities, the Statewide Association of Community Colleges (SWACC), the Schools Association for Excess Risk (SAFER), the Protected Insurance Programs for Schools (PIPS), the Self-Insured Schools of California (SISC), and the Alameda County School Insurance Group (ACSIG). The relationships between the District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes.

SWACC provides liability and property insurance for its member colleges. SWACC's membership consists of two joint power authority (JPA) members (which represent 19 districts) and 31 individual member districts for a total of 50 community college districts. A full Board of Directors comprised of one representative from each member governs SWACC. Each Board Member is allocated a number of votes determined by a weighted system that is based on the lottery full-time equivalent students (FTES) of each member. The Board elects from its members a President, Vice-President, Secretary and Treasurer. Each member shares surpluses and deficits proportionately to its participation in SWACC

SAFER arranges for and provides a self-funded or additional insurance for excess liability fund for members, elected alternates, and two ex-officio members. The board controls the operations of SAFER, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SAFER's board of directors and shares surpluses and deficits proportionately to its participation in SAFER.

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

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 12: JOINT POWERS AGREEMENTS

Condensed financial information for the year ended June 30, 2018 is as follows:

JPA Condensed Financial Information	SWACC 6/30/2018 (Audited)	SAFER 6/30/17 (Audited)	PIPS 6/30/17 (Audited)	SISC 9/30/17 (Audited)	ACSIG 6/30/17 (Audited)
Total assets	\$ 52,332,118	\$ 25,967,058	\$ 129,260,118	\$ 540,842,328	\$ 42,634,178
Total liabilities	34,316,883	25,277,081	111,815,654	173,862,442	27,029,314
Fund balance	18,015,235	689,977	17,444,464	366,979,886	15,604,864
Total revenues	22,350,383	55,169,347	300,784,657	2,089,274,509	158,185,377
Total expenditures	29,435,155	56,889,019	296,996,362	1,984,882,354	150,309,757

NOTE 13: FUNCTIONAL EXPENSE

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

Functional Expense	Instructional Salaries and Benefits	Non-Instructional Salaries and Benefits	Supplies, materials, and other operating expenses and services	Financial Aid	Depreciation	Total
Instructional activities	\$ 101,253,033	\$ 6,938,331	\$ 1,822,005	\$ -	\$ -	\$ 110,013,369
Academic support	1,333,111	16,664,516	300,439			18,298,066
Student services		30,769,936	425,159			31,195,095
Operation and maintenance of plant		11,651,807	2,033,111			13,684,918
Instructional support services		38,105,600	3,199,895			41,305,495
Community services and economic development	492	4,852,344	423,885			5,276,721
Ancillary services and auxiliary operations		6,487,509	434,398			6,921,907
Physical property and related acquisitions		3,400,125	9,666,153			13,066,278
Transfers, student aid and other outgo			16,713,393	27,418,161		44,131,554
Depreciation expense	-	-	-	-	23,672,801	23,672,801
Total	<u>\$ 102,586,636</u>	<u>\$ 118,870,168</u>	<u>\$ 35,018,438</u>	<u>\$ 27,418,161</u>	<u>\$ 23,672,801</u>	<u>\$ 307,566,204</u>

NOTE 14: SELF-INSURANCE

The District is exposed to various risks of loss related to torts, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical claims. The District is self-insured for coverage up to a maximum of \$50,000 for each general liability claim and \$5,000 for each property damage claim. In 1995, the District became fully insured for workers' compensation benefits. The ending claims liabilities balance for workers' compensation at June 30, 2018, represents estimated liabilities incurred prior to 1995, both reported and unreported, which are actuarially determined. The District participates in JPAs to provide excess insurance coverage above the self-insured retention level for workers' compensation and property and liability claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

At June 30, 2018, the District accrued the claims liability in accordance with GASB standards which requires that a liability for claims be reported if information prior to the issuance of the

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 14: SELF-INSURANCE

financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The present value of the liability, estimated at \$554,637, is included in long term debt.

Changes in the reported liability are shown herein:

Reported Liability	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Worker's compensation	\$ -			\$ -
Property and liability	459,777	463,591	368,731	554,637

NOTE 15: COMMITMENTS AND CONTINGENCIES

Litigation

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

State and Federal Allowances, Awards, and Grants

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

Purchase Commitments

As of June 30, 2018, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$56.4 million. Projects will be funded through state funds and general funds.

**NOTE 16: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE**

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2018, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2018

**NOTE 16: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE**

Statement No. 83 – *Certain Asset Retirement Obligations*

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

Statement No. 84 – *Fiduciary Activities*

The objective of the statement is to improve guidance regarding the recognition of fiduciary activities for accounting and financial reporting purposes by establishing criteria for identifying fiduciary activities of all state and local governments. The statement is effective for the fiscal year 2019-20.

Statement No. 87 – *Leases*

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

Statement No. 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*

The statement modifies previous guidance for reporting a majority equity interest in a legally separate organization and provides guidance for reporting a component unit if 100 percent equity interest is acquired in that component unit. The statement is effective for the fiscal year 2018-19.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Fiscal Year Ended June 30, 2018**

California State Teachers' Retirement System - State Teachers' Retirement Plan	2015	2016	2017	2018
District's proportion of the net pension liability (assets)	0.1220%	0.1290%	0.1300%	0.1290%
District's proportionate share of the net pension liability (asset)	\$ 71,293,140	\$ 86,772,244	\$ 105,145,300	\$ 119,299,200
State's proportionate share of the net pension liability (asset) associated with the District	<u>43,375,206</u>	<u>45,892,828</u>	<u>59,866,156</u>	<u>70,576,974</u>
Total	<u>\$ 114,668,346</u>	<u>\$ 132,665,072</u>	<u>\$ 165,011,456</u>	<u>\$ 189,876,174</u>
District's covered payroll	\$ 63,923,000	\$ 59,388,000	\$ 66,927,000	\$ 75,351,000
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	111.53%	146.11%	157.10%	158.32%
Plan fiduciary net position as a percentage of the total pension liability	76.50%	76.50%	70.04%	69.46%
California Public Employees' Retirement System - Schools Pool Plan	2015	2016	2017	2018
District's proportion of the net pension liability (assets)	0.3780%	0.3770%	0.3831%	0.3947%
District's proportionate share of the net pension liability (asset)	<u>\$ 42,912,204</u>	<u>\$ 55,573,249</u>	<u>\$ 75,662,487</u>	<u>\$ 94,225,307</u>
District's covered payroll	\$ 42,707,000	\$ 41,766,000	\$ 45,786,000	\$ 50,140,000
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	100.48%	133.06%	165.25%	187.92%
Plan fiduciary net position as a percentage of the total pension liability	83.40%	83.40%	73.90%	71.87%

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

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

See the accompanying notes to the required supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2018**

<u>California State Teachers' Retirement System - State Teachers' Retirement Plan</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 8,300,583	\$ 7,181,247	\$ 9,479,208	\$ 10,603,030
Contributions in relation to the contractually required contribution	<u>8,300,583</u>	<u>7,181,247</u>	<u>9,479,208</u>	<u>10,603,030</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 59,388,000	\$ 66,927,000	\$ 75,351,000	\$ 73,766,000
Contributions as a percentage of covered payroll	13.98%	10.73%	12.58%	14.37%
<u>California Public Employees' Retirement System - Schools Pool Plan</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 4,916,269	\$ 5,424,269	\$ 6,963,468	\$ 7,728,887
Contributions in relation to the contractually required contribution	<u>4,916,269</u>	<u>5,424,269</u>	<u>6,963,468</u>	<u>7,728,887</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 41,766,000	\$ 45,786,000	\$ 50,140,000	\$ 49,764,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%	15.53%

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

See the accompanying notes to the required supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
For the Fiscal Year Ended June 30, 2018**

	As of June 2017	As of December 2017
Total OPEB Liability		
Service Cost	\$ 4,353,903	\$ 4,353,892
Interest	6,099,713	6,387,047
Benefit Payments	<u>(4,239,872)</u>	<u>(5,257,031)</u>
Net Change in Total OPEB Liability	6,213,744	5,483,908
Total OPEB Liability - beginning	<u>99,594,587</u>	<u>104,725,415</u>
Total OPEB Liability - ending (a)	<u><u>\$ 105,808,331</u></u>	<u><u>\$ 110,209,323</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 11,116,750	\$ 12,133,909
Net Investment Income	10,662,951	13,243,922
Benefit Payments	(4,239,872)	(5,257,031)
Administrative Expense	<u>(327,398)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	17,212,431	20,120,800
Plan Fiduciary Net Position - beginning	<u>92,851,453</u>	<u>96,106,489</u>
Plan Fiduciary Net Position - ending (b)	<u><u>\$ 110,063,884</u></u>	<u><u>\$ 116,227,289</u></u>
Net OPEB Liability (Asset) - ending (a) - (b)	<u><u>\$ (4,255,553)</u></u>	<u><u>\$ (6,017,966)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	104.02%	105.46%
Covered-employee payroll	\$ 89,360,000	\$ 91,216,000
Net OPEB liability (asset) as a percentage of covered-employee payroll	-4.76%	-6.60%

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

See the accompanying notes to the required supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS
EMPLOYER CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2018

OPEB Contributions	As of December 2017
Actuarially Determined Contribution (ADC)	\$ 4,594,742
Contributions in relation to the ADC	<u>12,133,909</u>
Contribution deficiency (excess)	<u>\$ (7,539,167)</u>
 District's covered-employee payroll	 \$ 91,216,000
 Contributions as a percentage of covered-employee payroll	 13.30%

See the accompanying notes to the required supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS
MONEY-WEIGHTED RATE OF RETURN ON PLAN ASSETS
For the Fiscal Year Ended June 30, 2018**

<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2017	NA
2018	NA

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

See the accompanying notes to the required supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018**

NOTE 1: PURPOSE OF SCHEDULES

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

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

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

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

Schedule of Changes in the Net OPEB Liability and Related Ratios

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

Benefit changes – None

Changes of Assumptions - The initial healthcare trend rate changed from 6.5% to 6.0%

Schedule of Postemployment Healthcare Benefits Employer Contributions

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

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

Methods of assumptions used to determine contribution rates are:

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018**

NOTE 1: PURPOSE OF SCHEDULES

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

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

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

SUPPLEMENTARY INFORMATION

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**HISTORY AND ORGANIZATION
For the Fiscal Year Ended June 30, 2018**

The Board of Trustees and the District Administrators for the fiscal year ended June 30, 2018 were as follows:

BOARD OF TRUSTEES

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Mr. Timothy Jemal	President	2020
Ms. Marcia Milchiker	Vice President	2018
Mr. T.J. Prendergast, III	Clerk	2018
Mr. David B. Lang	Member	2020
Dr. James R. Wright	Member	2020
Ms. Barbara J. Jay	Member	2020
Ms. Terri Whitt	Member	2018
Ms. Evelyn Hoang	Student Member	2019

DISTRICT ADMINISTRATORS

Ms. Ann- Marie Gabel	Interim Chancellor*
Dr. James Buysse	Interim President, Saddleback College
Dr. Glenn R. Roquemore	President, Irvine Valley College
Ms. Kim McCord	Acting Vice Chancellor, Business Services
Dr. Robert S. Bramucci	Vice Chancellor, Technology and Learning Services
Dr. Cindy Vyskocil	Vice Chancellor, Human Resources

*Effective July 1, 2018, Dr. Kathleen F. Burke became Chancellor and Ms. Ann-Marie Gabel resumed as Vice Chancellor of Business Services.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018**

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
United States Department of Education			
Direct:			
Student Financial Aid Cluster:			
Federal Work Study	84.033	(1)	\$ 356,811
Pell Grant	84.063	(1)	20,162,330
Financial Aid Administrative Allowance	84.007	(1)	52,587
Federal Direct Student Loans	84.268	(1)	2,476,733
Supplemental Education Opportunity Grant	84.007	(1)	411,386
Subtotal: Student Financial Aid			<u>23,459,847</u>
 Asian American and Native Pacific Islander Serving Institutions Program (AANAPISI)	 84.031	 (1)	 <u>313,583</u>
 Pass-Through Program From California Department of Education:			
Vocational Technical Education Act (VTEA):			
Tech Prep VTEA	84.048	(1)	779,193
Title I-C VTEA	84.048	(1)	82,743
Subtotal: VTEA			<u>861,936</u>
WIOA- Adult Education and Family Literacy Act			<u>177,748</u>
Total: United States Department of Education			<u>24,813,114</u>
 United States Department of Health and Human Services			
Direct:			
HRSA Behavioral Health	93.243	(1)	80,486
 Pass-Through Program From California Department of Education:			
Temporary Assistance for Needy Families (TANF)	93.558	6780-111-0001	86,894
Total: United States Department of Health and Human Services			<u>167,380</u>
 United States Department of Labor			
Direct:			
Trade Adjustment Assistance Community College and Career Training	17.282	(1)	144,614
Total: United States Department of Labor			<u>144,614</u>

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018**

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
National Science Foundation (NSF)			
Direct:			
NSF Photonics Planning	47.076	(1)	18,481
NSF STEM Core Initiative	47.076	(1)	<u>138,592</u>
Subtotal: NSF Direct Program			<u>157,073</u>
Passed through the Center for Occupational Research and Development:			
Op-Tec: The National Center for Optics and Photonics Education	47.076	(1)	7,444
Passed through the University of California, Irvine:			
NSF iUse	47.076	(1)	<u>71,118</u>
Subtotal: NSF Passed Through			<u>78,562</u>
Total: NSF			<u>235,635</u>
Total Federal Programs			<u><u>\$ 25,360,743</u></u>

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

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
For the Fiscal Year Ended June 30, 2018**

Program Name	Program Revenues					Total	Total Program Expenditures
	Cash Received	Prior Year Unearned Revenue	Accounts Receivable	Unearned Revenue	Accounts Payable		
State Categorical Aid Programs:							
Adult Education Block Grant (AEBG)	\$ 3,035,754	\$ 2,840,577	\$ -	\$ 3,622,378	\$ -	\$ 2,253,953	\$ 2,253,953
Adult Education AEBG Fiscal Agent	4,579,171	378,466		57,439		4,900,198	4,900,198
Adult Education Block Grant - Data	-	337,080		32,345		304,735	304,735
Basic Skills	702,069	330,042		642,253		389,858	389,858
Board Financial Assistance Program - Student Financial Aid Administration (BFAP - SFAA)	860,078					860,078	860,078
CalWORKS	444,871					444,871	444,871
Cooperative Agencies Resources for Education (CARE)	131,110		10,000			141,110	141,110
Disabled Student Program and Services (DSPS)	2,992,451					2,992,451	2,992,451
Equal Employment Opportunity Extended Opportunities Program and Services (EOPS)	50,000	52,831		93,521		9,310	9,310
Foster and Kinship Care Education	1,621,994					1,621,994	1,621,994
Full Time Student Success Grant	179,533		39,147			218,680	218,680
Physical Plant and Instructional Equipment	927,305					927,305	927,305
Strong Workforce Local Allocation	1,681,749	6,156,078		6,430,318		1,407,509	1,407,509
Student Success - (Equity)	3,060,856	2,131,300		3,886,917		1,305,239	1,305,239
Student Success and Support Program (SSSP) - Credit	1,903,275	872,607		1,089,489		1,686,393	1,686,393
Student Success and Support Program (SSSP) - Non-Credit	7,170,672	956,908		2,379,164		5,748,416	5,748,416
Veteran Resource Center	272,034			43,556		228,478	228,478
	130,863			130,863		-	-
Other State Awards:							
Orange County Career Pathways Partnership (OCCPP)	311,367	456	55,972			367,795	367,795
Common Assessment Initiative	68,850		38,205			107,055	107,055
Teacher Preparation Pipeline/STEM/CTE	42,628					42,628	42,628
Basic Skills Student Outcome Transformation Pre-Apprenticeship			996,986			996,986	996,986
CTE Data Unlocked Initiative		86,151	346,008	46,815		346,008	346,008
Real Estate Education Center	66,489		27,511			39,336	39,336
Deputy Sector Navigator - Energy (Efficiency) & Utilities	60,000		14,972			94,000	94,000
Zero Textbook Cost Degree	21,000	3,555				74,972	74,972
Maker Space	37,220					24,555	24,555
Alternative and Renewable Fuel and Vehicle Technology			111,809			37,220	37,220
Deputy Sector Navigator - Energy, Construction			189,622			111,809	111,809
Enrollment Growth			268,000			189,622	189,622
Child Development Training Consortium	29,825				175	268,000	268,000
Career Technical Education Management	10,000					29,650	29,650
FKCE - CSEC	7,800		5,200			10,000	10,000
Leadership Seed Grant	5,000					13,000	13,000
Education Futures Project	-	-	6,385	-	-	5,000	5,000
Total State Categorical Aid Programs	\$ 30,403,964	\$ 14,146,051	\$ 2,109,817	\$ 18,455,058	\$ 175	\$ 28,204,599	\$ 28,204,599

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2018

Categories	Reported Data Factored	Audit Adjustments	Revised Data Factored
A. Summer Intersession (Summer 2017 only)			
1. Noncredit ¹	414.69	-	414.69
2. Credit ¹	3,321.77	-	3,321.77
B. Summer Intersession (Summer 2018- Prior to July 1, 2018)			
1. Noncredit ¹	0.52	-	0.52
2. Credit ¹	15.46	-	15.46
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,837.66	-	13,837.66
(b) Daily Census Contact Hours	875.75	-	875.75
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	2,599.67	-	2,599.67
(b) Credit ¹	1,050.87	-	1,050.87
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,556.47	-	2,556.47
(b) Daily Census Contact Hours	2,285.66	-	2,285.66
(c) Noncredit Independent Study/Distance Education Courses	4.27	-	4.27
D. Total FTES	26,962.79	-	26,962.79
Supplemental Information (subset of above information)			
E. In-service Training Courses (FTES)	-	-	-
H. Basic Skills courses and Immigrant Education			
(a) Noncredit ¹	1,234.84	-	1,234.84
(b) Credit ¹	1,540.55	-	1,540.55
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	977.03	-	977.03
Centers FTES			
(a) Noncredit ¹	-	-	-
(b) Credit ¹	-	-	-

¹Including Career Development and College Preparation (CDCP) FTES

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

The audit resulted in no adjustments to the fund balances reported on the June 30, 2018 Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles. In accordance with Governmental Accounting Standards Board Statements No. 34 and No. 35, the financial statements have been prepared under the full accrual basis of accounting which requires that revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Additional entries were made to comply with the governmental reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

A reconciliation between the fund balances reported on the June 30, 2018 Annual Financial and Budget Report (CCFS-311), based upon the modified accrual basis of accounting, and total net position recorded on the full accrual basis of accounting is shown below and on the following page:

Unrestricted Fund Balance	\$ 61,168,571
Restricted Fund Balance	9,531,509
Capital Outlay Funds Balance	250,368,787
Self Insurance Fund Balance	3,185,478
Retiree Benefit Fund Balance	1,387,556
Pension Stability Trust Fund Balance	34,914,596
All Other Funds	<u>583,003</u>
 Total fund balances as reported on the Annual Financial and Budget Report (CCFS-311)	 <u>\$ 361,139,500</u>

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

Total fund balances as reported on the Annual Financial and Budget Report (CCFS-311)	\$ 361,139,500
Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets, net of accumulated depreciation are added to total net assets.	384,476,461
Deferred outflows associated with pension costs result from pension contributions made during the fiscal year and from actuarially determined adjustments. These amounts will be recognized as a reduction of the net pension liability or amortized to pension expense, as applicable, in subsequent periods.	63,782,101
Compensated absences and load banking are not due and payable in the current period and therefore are not reported in the governmental funds. The short term portion of compensated absences and load banking of \$747,889 is already recorded in the General Fund.	(4,785,092)
The supplemental employee retirement plan is not due and payable in the current period and therefore are not reported in the governmental funds.	(7,420,610)
The liability of employers and nonemployers contributing to employees for benefits provided through a defined benefit pension plan is recorded as net pension liabilities. The proportionate share of the STRS Medicare Premium Program is also recorded as a liability.	(213,709,618)
Deferred inflows associated with pension costs and OPEB represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources results from the difference between the expended and actual experience, the difference in proportion and changes in assumptions. These amounts are deferred and amortized.	(17,426,629)
Amounts reserved for other post employment retirement plans in excess of annual required contributions is reported in total net position in the governmental funds. These amounts are recognized as assets which will apply against future required contributions.	<u>6,017,966</u>
Total net position	<u>\$ 572,074,079</u>

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF 50 PERCENT LAW CALCULATION
For the Fiscal Year Ended June 30, 2018**

Object/TOI Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799			
	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data	
<u>Academic Salaries</u>							
Instructional Salaries - Contract or Regular	1100	34,963,038		34,963,038	34,963,038		34,963,038
Instructional Salaries - Other	1300	30,149,698		30,149,698	30,149,698		30,149,698
Total Instructional Salaries		65,112,736	-	65,112,736	65,112,736	-	65,112,736
Non-Instructional Salaries - Contract or Regular	1200			-	11,465,420		11,465,420
Non-Instructional Salaries - Other	1400			-	4,288,417		4,288,417
Total Non-Instructional Salaries		-	-	-	15,753,837	-	15,753,837
Total Academic Salaries		65,112,736	-	65,112,736	80,866,573	-	80,866,573
<u>Classified Salaries</u>							
Non-Instructional Salaries - Regular Status	2100			-	31,485,498		31,485,498
Non-Instructional Salaries - Other	2300			-	2,156,404		2,156,404
Total Non-Instructional Salaries		-	-	-	33,641,902	-	33,641,902
Instructional Aides - Regular Status	2200	3,462,429		3,462,429	3,462,429		3,462,429
Instructional Aides - Other	2400	1,264,952		1,264,952	1,264,952		1,264,952
Total Instructional Aides		4,727,381	-	4,727,381	4,727,381		4,727,381
Total Classified Salaries		4,727,381	-	4,727,381	38,369,283	-	38,369,283
Employee Benefits	3000	25,908,271		25,908,271	49,991,387		49,991,387
Supplies and Materials	4000			-	1,942,182		1,942,182
Other Operating Expenses	5000	817,942		817,942	14,641,380		14,641,380
Equipment Replacement	6420			-			-
Total Expenditures Prior to Exclusions		96,566,330	-	96,566,330	185,810,805	-	185,810,805
<u>Exclusions</u>							
<u>Activities to Exclude</u>							
Instructional Staff-Retirees' Benefits & Retirement Incentives	5900	463,942		463,942	463,942		463,942
Student Health Services Above Amount Collected	6441			-	51,698		51,698
Student Transportation	6491			-	448,634		448,634
Non-instructional Staff-Retirees' Benefits & Retirement Incentives	6740			-	1,497,026		1,497,026
<u>Objects to Exclude</u>							
Rents and Leases	5060			-	361,085		361,085
Lottery Expenditures							
Academic Salaries	1000			-	164,665		164,665
Classified Salaries	2000			-	198,277		198,277
Employee Benefits	3000			-	93,023		93,023
Software	4100			-			-
Books, Magazines, & Periodicals	4200			-			-
Instructional Supplies & Materials	4300			-			-
Noninstructional, Supplies & Materials	4400			-			-
Other Operating Expenses and Services	5000			-	3,755,400		3,755,400
Capital Outlay	6000			-			-
Library Books	6300			-			-
Equipment - Additional	6410			-			-
Equipment - Replacement	6420			-			-
Other Outgo	7000			-			-
Total Exclusions		463,942	-	463,942	7,033,750	-	7,033,750
Total for ECS 84362, 50% Law		96,102,388	-	96,102,388	178,777,055	-	178,777,055
Percent of CEE (Instructional Salary Cost/Total CEE)		53.76%	0%	53.76%	100%	0%	100%
50% of Current Expense of Education					89,388,528	-	89,388,528

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

	<u>2019 (Budget)</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total revenues	\$ 328,021,366	\$ 302,618,006	\$ 282,233,521	\$ 272,457,984
Total expenditures	288,170,698	230,584,690	221,183,049	201,789,323
Total other uses	<u>69,544,801</u>	<u>66,992,972</u>	<u>54,731,550</u>	<u>66,317,806</u>
Change in fund balance	<u>(29,694,133)</u>	<u>5,040,344</u>	<u>6,318,922</u>	<u>4,350,855</u>
Ending fund balance	<u>\$ 41,005,947</u>	<u>\$ 70,700,080</u>	<u>\$ 65,659,736</u>	<u>\$ 59,340,814</u>
Available reserve	<u>\$ 41,005,947</u>	<u>\$ 45,281,055</u>	<u>\$ 38,623,055</u>	<u>\$ 34,987,994</u>
Available reserve %	14.23%	19.64%	17.46%	17.34%
Full-time equivalent students	<u>28,276</u>	<u>26,963</u>	<u>27,365</u>	<u>23,633</u>
Total long term debt	<u>\$ 224,614,804</u>	<u>\$ 227,217,846</u>	<u>\$ 195,695,202</u>	<u>\$ 146,543,979</u>

IMPORTANT NOTES:

Available reserve balance is the amount designated for general reserve and any other remaining undesignated amounts in the General Fund. The 2019 budget reserve balance was estimated using the budgeted contingency reserve balances less other 2018 amounts reserved.

The 2019 budget is the Plan and Budget adopted by the Board of Trustees on August, 27, 2018

The California Community College Chancellor's Office has provided guidelines that recommend an ending fund balance of 3% of unrestricted expenditures as a minimum with a prudent ending fund balance being 5% of unrestricted expenditures. In addition, the District's Board policy requires a 7.5% unrestricted ending fund balance.

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

Fiscal year 2016 was audited by another firm.

See the accompanying notes to the supplementary information.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018**

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal governmental for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Summary of Significant Accounting Policies

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

Schedule of State Financial Assistance – Grants

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

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule reports any audit adjustments made to the fund balances reported on the June 30, 2018 Annual Financial and Budget Report (CCFS- 311). This schedule is prepared to show a reconciliation between the governmental fund balances reported on the June 30, 2018 Annual Financial and Budget Report (CCFS- 311), based upon the modified accrual basis of accounting, and total net position recorded on the full accrual basis of accounting.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018**

NOTE 1: PURPOSE OF SCHEDULES

Reconciliation of 50 Percent Law Calculation

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

Education Protection Account Expenditure Report

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

Schedule of General Fund Financial Trends and Analysis

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

OTHER INDEPENDENT AUDITOR'S REPORT

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of South Orange County Community College District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 18, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP
Glendora, California
October 18, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited South Orange County Community College District’s (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2018. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did

not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

The Districts' response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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



CliftonLarsonAllen LLP
Glendora, California
October 18, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the South Orange County Community College District's (the District) compliance with the types of compliance requirements described in the *2017-18 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office for the year ended June 30, 2018. The District's state compliance requirements are identified in the table provided.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-18 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

Compliance Requirements Tested

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

<u>Section</u>	<u>Description</u>	<u>Procedures Performed</u>
421	Salaries of Classroom Instructors (50 Percent Law)	Yes
423	Apportionment for Instructional Service Agreements/Contracts	Yes
424	State General Apportionment Funding System	Yes
425	Residency Determination for Credit Courses	Yes
426	Students Actively Enrolled	Yes
427	Dual Enrollment (CCAP and Non-CCAP)	Yes
428	Student Equity	Yes
429	Student Success and Support Program (SSSP)	Yes
430	Scheduled Maintenance Program	Yes
431	Gann Limit Calculation	Yes
435	Open Enrollment	Yes
439	Proposition 39 Clean Energy Funds	Yes
440	Intersession Extension Program	Not applicable
444	Apprenticeship Related and Supplemental Instruction (RSI) Funds	Not applicable
475	Disabled Student Programs and Services (DSPS)	Yes
479	To Be Arranged Hours (TBA)	Yes
490	Proposition 1D and 51 State Bond Funded Projects	Not applicable
491	Education Protection Account Funds	Yes

Opinion on State Compliance

In our opinion, the District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2017-18 Contracted District Audit Manual*. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP
Glendora, California
October 18, 2018

FINDINGS AND QUESTIONED COSTS

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2018**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? *Yes* X *No*
Significant deficiency(ies) identified? *Yes* X *None Reported*

Noncompliance material to financial statements noted? *Yes* X *No*

Federal Awards

Internal control over major federal awards:

Material weakness(es) identified? *Yes* X *No*
Significant deficiency(ies) identified? X *Yes* *None Reported*

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X *Yes* *No*

Identification of Major Federal Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063, and 84.268	Student Financial Aid Cluster
84.048	Career and Technical Education- Basic Grants to States

Dollar threshold used to distinguish between type A and type B programs: \$760,822

Auditee qualified as low-risk auditee? X *Yes* *No*

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS**

June 30, 2018

There were no findings and questioned costs related to financial statements for June 30, 2018.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2018

FEDERAL AWARDS FINDINGS

Finding 2018-001: Special Tests and Provisions: Borrower Data Transmission and Reconciliation (Direct Loan)

Federal agency: Department of Education

Federal program title: Student Financial Aid Cluster

CFDA Numbers: 84.268 – Federal Direct Student Loans

Award Period: July 1, 2017 through June 30, 2018

Type of Finding:

Significant Deficiency in Internal Control over Compliance and Material Non Compliance.

Criteria:

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the COD within 15 days of disbursement (OMB No. 1845-0021). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the District) Loan Detail records. The District is required to reconcile these files to the institution's financial records.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure student enrollment status changes are accurately and timely reported to the NSLDS.

Condition:

We were unable to obtain evidence that the District is performing the required reconciliations.

Context:

The District disbursed \$2,476,733 in Federal Direct Students loans during the fiscal year.

Questioned Costs:

None

Cause:

The District's internal control process did not ensure it retained evidence the reconciliations were completed.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2018

Possible Asserted Effect:

There could be unreconciled differences with DLSS.

Repeat Finding:

This was not a finding in the prior year.

Recommendation:

We recommend additional training for personnel to review the DLSS requirements.

Views of responsible officials and planned corrective actions:

Both colleges, within the South Orange County Community College District, Irvine Valley College and Saddleback College understand the importance and the requirement to properly reconcile all Title IV, HEA FSA Program funds. Throughout the 2017-2018 academic award year both colleges reconciled each program, including our Direct Loan programs, as required at minimum every 30 days, typically at the time of each disbursement. However, we did not properly save and maintain documentation of the reconciliation process throughout the award year. To ensure our Direct Loan reconciliation process is properly documented moving forward, both Financial Aid Directors and District staff, based on guidelines provided by our auditors, have established procedures to sign-off as evidence that the reconciliation process occurred within each respective office and to maintain appropriate documentation.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2018

FINDING 2018-002 – Special Tests and Provisions – Return of Funds on Behalf of the Students: Significant Deficiency in Internal Controls

Federal agency: Department of Education

Federal program title: Student Financial Aid Cluster

CFDA Numbers: Various

Award Period: July 1, 2017 through June 30, 2018

Type of Finding:

Significant Deficiency in Internal Control over Compliance and Material Non Compliance

Criteria:

The institutional portion of unearned aid is to be returned to the appropriate Title IV, HEA program or Federal Family Education Loan (“FFEL”) lender no later than 45 days after the date of the institution’s determination that the student withdrew (34 CFR Section 668.173 (b)).

Condition / Context:

We selected a sample of 40 students who had received Federal aid and had withdrawn from courses offered by the District during the 2017-2018 fiscal year.

During our testing we noted that the District did not return 7 out of 40 (18% of the students tested) in a timely manner.

Cause:

The District's process in place did not result in the return of the payments in a timely basis. However the refund calculation was performed timely.

Effect:

For the cases identified, the District properly returned the funds to Title IV, however the funds were not returned in a timely manner.

Identification of repeat finding:

Not a repeat finding

Recommendation:

Implement controls to ensure the Title IV funds are returned in a timely manner.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2018

Views of responsible officials and planned corrective actions:

Both colleges, within the South Orange County Community College District, Irvine Valley College and Saddleback College understand the importance and the requirement to ensure district liability is returned to the Department within 45 days from our Date of Determination for all Return to Title IV calculations. While both colleges have policies and procedures in place to ensure the calculations are done timely, our procedures did not account for staff outside of the Financial Aid Office who go out on unexpected medical leave. Both colleges have implemented revised procedures to ensure that when requests for return of funds are sent, that these requests include multiple people within a respective area and are followed up on if not returned within 21 days of our date of determination. This will ensure that all responsible departments are consistently reminded of the 45 day requirement and if someone is unexpectedly out on leave, there are multiple people included in the process to send reminders when needed.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS**

June 30, 2018

STATE COMPLIANCE FINDINGS

There were no findings and questioned costs related to state awards for the year ended June 30, 2018.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS, FEDERAL OR STATE AWARDS
June 30, 2018

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