

**PALO VERDE COMMUNITY  
COLLEGE DISTRICT**

**County of Riverside  
Blythe, California**

**REPORT ON AUDIT  
June 30, 2017**

# PALO VERDE COMMUNITY COLLEGE DISTRICT

Table of Contents  
June 30, 2017

---

## FINANCIAL SECTION

Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	4

## BASIC FINANCIAL STATEMENTS

Statement of Net Position.....	12
Statement of Revenues, Expenses and Changes in Net Position.....	13
Statement of Cash Flows.....	14
Statements of Fiduciary Net Position.....	16
Statements of Changes in Fiduciary Net Position.....	17
Notes to Financial Statements.....	18

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Other Postemployment Benefits (OPEB) Funding Progress.....	42
Schedule of the District's Proportionate Share of the Net Pension Liability.....	43
Schedule of the District's Pension Contributions.....	44

## SUPPLEMENTARY INFORMATION

History and Organization.....	45
Schedule of Expenditures of Federal Awards.....	46
Schedule of Expenditures of State Awards.....	47
Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance.....	48
Reconciliation of <i>Education Code</i> Section 84362 (50 Percent Law) Calculation.....	49
Proposition 30 Education Protection Act (EPA) Expenditure Report.....	51
Reconciliation of Governmental Funds to the Statement of Net Position.....	52
Note to Supplementary Information.....	54

## INDEPENDENT AUDITORS' REPORTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	55
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by Uniform Guidance.....	57
Independent Auditors' Report on State Compliance.....	59

## FINDINGS AND RECOMMENDATIONS

Section 1 – Summary of Auditors' Results.....	61
Section 2 – Financial Statement Findings.....	62
Section 3 – Federal Awards Findings.....	63
Section 4 – State Awards Findings.....	64
Status of Prior Year Findings and Questioned Costs.....	66



Paul S. Messner, CPA  
Cindra J. Hadley, CPA  
James M. Quinn, CPA, CFE

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Palo Verde Community College District  
Blythe, California

### Report on the Financial Statements

We have audited the financial accompanying financial statements of the business-type activities and the fiduciary activities of Palo Verde Community College District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the fiduciary activities of Palo Verde Community College District, as of June 30, 2017, and the changes in net position and, where applicable, cash flows 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 required supplementary information, such as the management's discussion and analysis on pages 4 through 11, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 42, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 43, and the Schedule of the District's Pension Contributions on page 44 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.

### Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements of Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Board of Trustees  
Palo Verde Community College District

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 21, 2017, on our consideration of Palo Verde Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California  
December 21, 2017

# PALO VERDE COMMUNITY COLLEGE DISTRICT

Management’s Discussion and Analysis  
June 30, 2017

---

This section of Palo Verde Community College District’s (the “District”) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year ended June 30, 2017.

## Introduction

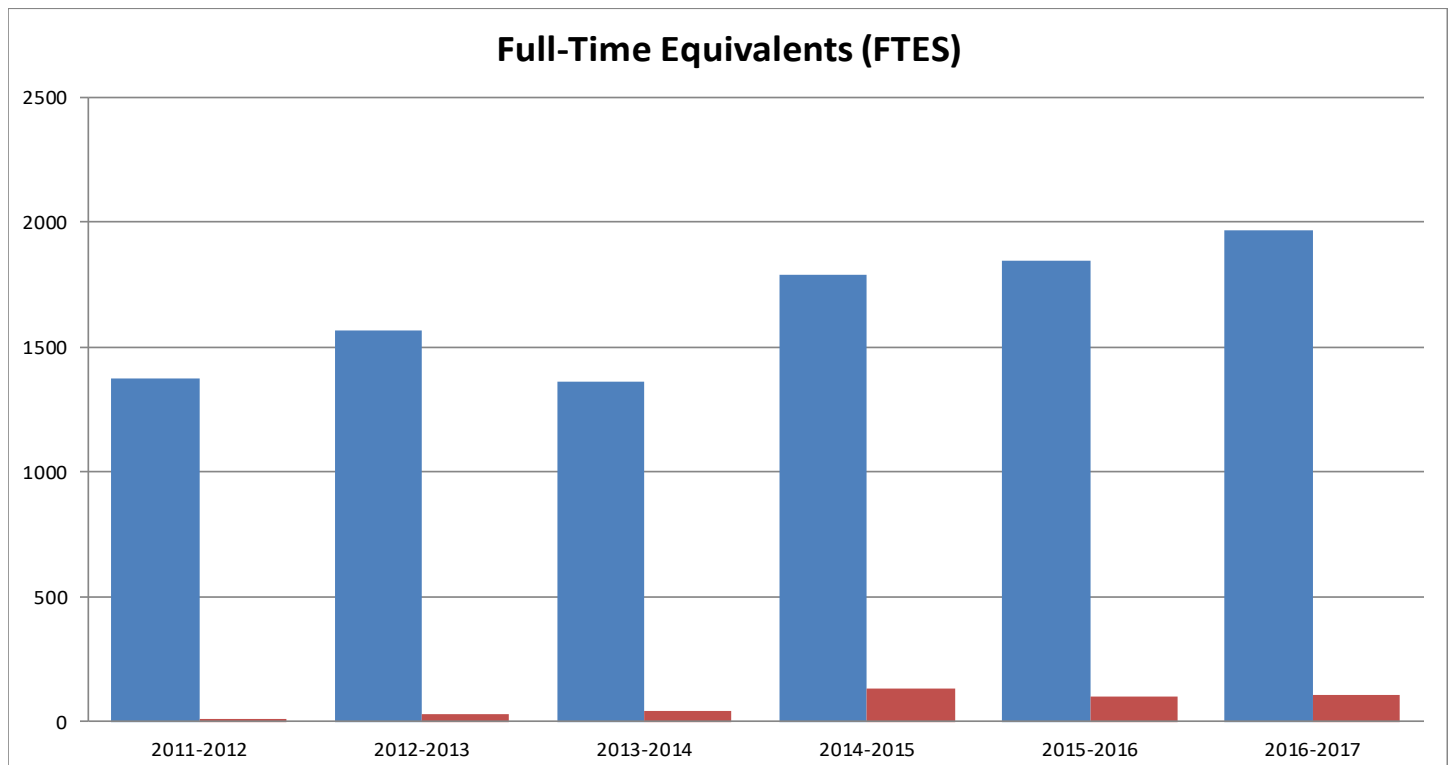
The following discussion and analysis provides an overview of the financial position and activities of the Palo Verde Community College District (the “District”) for the years ended June 30, 2017 and June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

Palo Verde Community College is an open access, public educational district, dedicated to providing excellence in education, cultural enrichment, economic development and services to assist members of the community to meet their educational goals. People of all ages and backgrounds attend early morning to late evening and weekends to take advantage of a wide variety of course offerings.

## Enrollment Highlights

During 2016-2017, total full-time equivalent students increased approximately 6.52% for both credit and non-credit courses. Credit and non-credit FTES, along with other workload measures, are the basis for the District’s State apportionment.

Trend of full-time equivalent students as reported on the annual report:



# PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis  
June 30, 2017

---

## Financial Highlights

This section is to provide an overview of the District's financial activities.

As required by the adopted accounting principles, the annual report consists of three basic financial statements that provide information on the District as a whole:

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

## Statement of Net Position

The Statement of Net Position presents the assets, liabilities and net position of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private sector organizations.

The difference between total assets and total liabilities is one indicator of the current financial condition of the District; the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less accumulated depreciation.

The Net Position is divided into three major categories. The first category, net investment in capital assets, provides the equity amount in property, plant and equipment owned by the District. The second category is expendable restricted net assets. These net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities, legislation and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted and is available to the District for any lawful purpose of the District.

The Statement of Net Position, as of June 30, 2017 and June 30, 2016, is summarized below:

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
<b>ASSETS</b>			
Current assets	\$ 13,862,695	\$ 12,816,096	\$ 1,046,599
Non-current assets	62,328,804	63,838,972	(1,510,168)
<b>Total Assets</b>	<u>76,191,499</u>	<u>76,655,068</u>	<u>(463,569)</u>
<b>DEFERRED OUTFLOWS</b>	3,656,669	2,618,038	1,038,631
<b>LIABILITIES</b>			
Current liabilities	2,527,454	4,001,062	(1,473,608)
Non-current liabilities	43,549,262	37,712,684	5,836,578
<b>Total Liabilities</b>	<u>46,076,716</u>	<u>41,713,746</u>	<u>4,362,970</u>
<b>DEFERRED OUTFLOWS</b>	<u>719,130</u>	<u>1,202,477</u>	<u>(483,347)</u>
<b>Total Net Position</b>	<u>\$ 33,052,322</u>	<u>\$ 36,356,883</u>	<u>\$ (3,304,561)</u>

## **PALO VERDE COMMUNITY COLLEGE DISTRICT**

June 30, 2017

---

- Approximately 99% of the cash and cash equivalent current assets is cash deposited with the Riverside County Treasurer's Office. The Statement of Cash flows contained within the financial statements provides greater detail regarding the sources and uses of cash and the net increase (decrease) in cash.
- The majority of the accounts receivable balance is from Federal and State sources for grant and entitlement programs.
- Capital assets are the net historical value of land, buildings, and equipment less accumulated depreciation. As of June 30, 2017, the District owned capital assets of \$62,029,628. The breakdown of this total net value can be found in Note 6 of the financial statements.
- Accounts payable and accrued liabilities consists of payables to vendors, accrued payroll and benefits \$1,825,545.
- Noncurrent liabilities consist of compensated absences, other postemployment benefit obligation, net pension liability, General Obligation Bonds, and Certificates of Participation.
- Unrestricted net position totaled (\$4,982,085).

### **Statement of Revenues, Expenses, and Changes in Net Position**

The change in total net position presented on the Statement of Net Position is based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of this statement is to present the operating and non-operating revenues earned (whether received or not) by the District, the operating and non-operating expenses incurred (whether paid or not) by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District.

Operating activities are those in which a direct payment or exchange is made for the receipt of specified goods or services. As an example, tuition fees paid by the student are considered an exchange for instructional services. This activity is considered an operating activity. The receipt of State apportionments and property taxes do not include this exchange relationship between payment and receipt of goods or services. These revenues and related expenses are classified as non-operating activities.



## PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis  
June 30, 2017

---

A summary of the Statement of Revenues, Expenses, and Changes in Net Position, for the years ended June 30, 2017 and June 30, 2016, is shown below.

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
<b>Revenues</b>			
Operating revenues	\$ 5,705,993	\$ 5,661,707	\$ 44,286
Non-operating revenues	17,315,753	17,571,627	(255,874)
Other revenues	-	243,054	(243,054)
	<u>23,021,746</u>	<u>23,476,388</u>	<u>(454,642)</u>
<b>Total Revenues</b>			
<b>Expenses</b>			
Operating expenses	20,904,926	18,244,287	(2,660,639)
Non-operating expenses	1,282,222	2,320,765	1,038,543
Depreciation	1,818,689	1,757,070	(61,619)
	<u>24,005,837</u>	<u>22,322,122</u>	<u>(1,683,715)</u>
<b>Total Expenses</b>			
<b>Excess (deficiency)</b>	(984,091)	1,154,266	(2,138,357)
<b>Net Position - Beginning</b>	36,356,883	35,202,617	1,154,266
Adjust for restatement	(2,320,470)	-	(2,320,470)
<b>Net Position - Ending</b>	<u>\$ 33,052,322</u>	<u>\$ 36,356,883</u>	<u>\$ (3,304,561)</u>

- Enrollment fees are generated by students who are residents of California and residents of neighboring Arizona counties who have approved reciprocity agreements. Out of state tuition plus enrollment fees are paid by all non-resident and foreign students.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program.
- Personnel costs are 64% of operating expenses, which includes all funds and depreciation. The balance of operating expenses is for supplies, other services, and capital outlay items below the capitalization threshold, insurance, utilities and depreciation expense.
- State apportionments, non-capital consists of State apportionment and other apportionments. State apportionment represents total general apportionment earned less regular enrollment, less property taxes.
- Local property taxes are received through the Auditor-Controller's Office for Riverside County and San Bernardino County. The amount received for property taxes is deducted from the total State general apportionment that is calculated by the State for the District.
- State taxes and other revenues consist primarily of State lottery revenue.
- Functional expenses are included in Note 12 of the financial statements.

## PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis  
June 30, 2017

---

Operating Expenses (by natural classification) – object:

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
Salaries	\$ 11,034,761	\$ 8,518,425	\$ (2,516,336)
Benefits	3,422,143	3,129,415	(292,728)
Payments to students	1,312,882	1,482,810	169,928
Supplies, materials, and other expen:	4,796,192	4,761,547	(34,645)
Utilities	338,948	352,090	13,142
Depreciation	<u>1,818,689</u>	<u>1,757,070</u>	<u>(61,619)</u>
Total Operating Expenses	<u>\$ 22,723,615</u>	<u>\$ 20,001,357</u>	<u>\$ (2,722,258)</u>

- Compensation consists of salaries, fixed charges (District contributions to retirement systems, workers' compensation and unemployment insurance, Social Security and Medicare), and health and welfare benefits borne by the District.
- Supplies, materials, other operating expenses and services include expenditures for software, reference books, software licensing and consultants, repairs and maintenance of buildings and equipment.
- Utilities consist of electricity, telephone, water, heating and waste disposal.

### **Statement of Cash Flows**

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. The statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for non-operating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Position. The net cash used by the District for operating activities, for the year ending June 30, 2017, was \$13,422,414.

## PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis  
June 30, 2017

---

The Statement of Cash Flows, for the years ended June 30, 2017 and June 30, 2016, is summarized below:

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
Net cash provided by (used in)			
Operating activities	\$ (13,422,414)	\$ (12,538,450)	\$ (883,964)
Non-capital financing activities	17,326,261	17,617,125	(290,864)
Capital financing activities	(2,642,867)	(5,852,375)	3,209,508
Investing activities	<u>76,918</u>	<u>53,201</u>	<u>23,717</u>
Net decrease in cash and cash equivalents	1,337,898	(720,499)	2,058,397
Cash balance, beginning of year	<u>12,069,936</u>	<u>12,790,435</u>	<u>(720,499)</u>
Cash balance, end of year	<u><u>\$ 13,407,834</u></u>	<u><u>\$ 12,069,936</u></u>	<u><u>\$ 1,337,898</u></u>

The primary cash receipts from operating activities are from student enrollment fees and tuition, Federal, State and Local grants and contracts. The primary cash outlays are payments of wages, benefits, vendors, and students related to the instruction program.

- General apportionment is the primary source of non-capital financing. The three main components of general apportionment are State apportionment, property taxes and enrollment fees.
- The primary use included in capital and related financing activities is the purchase of capital assets (building improvements and equipment).
- Cash earned from investing activities is interest earned on cash in bank.

### **The District's Fiduciary Responsibility**

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

# PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis  
June 30, 2017

---

## Capital Assets

A comparison of capital assets, net of depreciation, is summarized below:

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
Land and construction in progress	\$ 1,010,614	\$ 1,010,614	\$ -
Buildings and equipment	79,080,353	78,791,595	288,758
Accumulated depreciation	<u>(18,061,339)</u>	<u>(16,269,659)</u>	<u>(1,791,680)</u>
<b>Total Capital Assets</b>	<b><u><u>\$ 62,029,628</u></u></b>	<b><u><u>\$ 63,532,550</u></u></b>	<b><u><u>\$ (1,502,922)</u></u></b>

## Debt

At June 30, 2017, the District had \$44,251,171 in long-term debt. A comparison of long-term debt is summarized below:

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
Bonds payable	\$ 17,374,587	\$ 18,001,792	(627,205)
Certificates of participation	14,155,000	13,930,000	225,000
Loan payable - auto	15,303	20,446	(5,143)
Net pension liability	12,278,401	6,975,972	5,302,429
OPEB	144,161	28,429	115,732
Compensated absences	<u>283,719</u>	<u>242,952</u>	<u>40,767</u>
<b>Total Long-term Liabilities</b>	<b><u><u>\$ 44,251,171</u></u></b>	<b><u><u>\$ 39,199,591</u></u></b>	<b><u><u>\$ 5,051,580</u></u></b>

## **PALO VERDE COMMUNITY COLLEGE DISTRICT**

Management's Discussion and Analysis  
June 30, 2017

---

### **Economic Factors**

Palo Verde Community College once again saw an increase in enrollment over the previous year. As in past recent years, as other community colleges exceeded their capacity, Palo Verde College was able to provide educational services in those areas.

All industries, including community colleges, continue to experience increased costs for services and especially costs for employee benefits, insurance and utilities. Beginning 2002-2003, the District began making contributions to PERS for its employees and retirees. The PERS rate, for the year ending June 30, 2017, was 13.888%.

All community colleges will be facing higher STRS rates in the future due to recently passed legislation. The rates, ending June 30, 2015, were 8.88% and had been stable at that rate for many years. The STRS rate, for the year ending June 30, 2017, was 12.58%.

The District changed its approach to budget development in 2011-12, which included not using the ending balance as part of the budget, dividing up accountability of the budget monitoring, and creating a more transparent approach to observing and monitoring the budget. The District continued with this practice in the development of the 2016-17 budget. The District restored cuts previously negotiated with employee groups. The debt has been refinanced by the district which will affect the District during 2016-17 and beyond.

Management will continue a close watch over resources to react to any internal or external issues, if and when they may arise.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Office of Business Services, Palo Verde Community College, One College Drive, Blythe, California 92225.

## **BASIC FINANCIAL STATEMENTS**

---

# PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Net Position-Primary Government  
June 30, 2017

---

## ASSETS

### Current assets:

Cash and cash equivalents	\$ 13,407,834
Accounts receivable	289,230
Prepaid expenses	165,631
Total current assets	<u>13,862,695</u>

### Non-Current assets:

#### Other postemployment benefits other than

Notes receivable	299,176
Fixed assets, net	62,029,628
Total non-current assets	<u>62,328,804</u>

## TOTAL ASSETS

76,191,499

## DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding	717,646
Deferred outflows of resources - pensions only	2,939,023
Total deferred outflows	<u>3,656,669</u>

## LIABILITIES

### Current liabilities:

Current liabilities	1,825,545
Current portion of long-term debt	701,909
Total current liabilities	<u>2,527,454</u>

### Non-Current Liabilities

43,549,262

## TOTAL LIABILITIES

46,076,716

## DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - pensions only	<u>719,130</u>
---	----------------

## NET POSITION

Invested in capital assets	30,976,983
Restricted for:	
Capital projects	3,943,905
Debt service	1,195,558
Other activities	1,917,961
Unrestricted	<u>(4,982,085)</u>

## TOTAL NET POSITION

\$ 33,052,322

See the accompanying notes to the financial statements.

# PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenses and Changes in Net Position-Primary Government  
For the Fiscal Year Ended June 30, 2017

---

<b>OPERATING REVENUES</b>	
Tuition and fees	\$ 1,820,374
Less: Scholarship discounts and allowances	<u>(1,210,663)</u>
Net Tuition and Fees	609,711
Grants and contracts	
Federal	979,775
State	3,617,910
Local	<u>498,597</u>
<b>Total Operating Revenues</b>	5,705,993
<b>OPERATING EXPENSES</b>	
Salaries	11,034,761
Benefits	3,422,143
Payments to students	1,312,882
Supplies, materials, and other expenses	4,796,192
Utilities	338,948
Depreciation	<u>1,818,689</u>
<b>Total Operating Expenses</b>	<u>22,723,615</u>
<b>OPERATING INCOME/(LOSS)</b>	(17,017,622)
<b>NON-OPERATING REVENUES/(EXPENSES)</b>	
State apportionments, non-capital	13,822,783
Local property taxes	2,357,896
State taxes and other revenues	1,073,538
Investment income, net	61,536
Interest expense	<u>(1,282,222)</u>
<b>Total non-operating revenues (expenses)</b>	<u>16,033,531</u>
<b>CHANGE IN NET POSITION</b>	(984,091)
<b>NET POSITION</b>	
Net Position - Beginning	36,356,883
Prior period adjustment	<u>(2,320,470)</u>
Net Position - Beginning, as restated	<u>34,036,413</u>
<b>Net Position - Ending</b>	<u><u>\$ 33,052,322</u></u>

See the accompanying notes to the financial statements.



# PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Cash Flows-Primary Government  
For the Fiscal Year Ended June 30, 2017

---

## Cash Flows from Operating Activities

Tuition and fees	\$ 757,907
Federal grants and contracts	979,354
State grants and contracts	3,825,925
Local grants and contracts	498,597
Payments to suppliers	(4,833,817)
Payments for utilities	(338,948)
Payments to/on-behalf of employees	(12,998,550)
Payments to/on-behalf of students	<u>(1,312,882)</u>
Net cash provided by (used in) operating activities	(13,422,414)

## Cash Flows from Non-capital Financing Activities

State apportionments and receipts	13,822,783
Property taxes	2,317,172
State taxes and other revenues	<u>1,186,306</u>
Net cash provided by (used in) by non-capital financing activities	17,326,261

## Cash Flows from Capital Financing Activities

Principal paid on capital debt	(14,601,907)
Interest paid on capital debt	(1,987,223)
Purchases of capital assets	(208,737)
Proceeds from issuance of capital debt	14,155,000
Net cash provided by (used in) capital financing activities	(2,642,867)

## Cash Flows from Investing Activities

Investment income	69,672
Collection from notes receivable	<u>7,246</u>
Net cash provided by (used in) investing activities	<u>76,918</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 1,337,898

## CASH AND CASH EQUIVALENTS

<b>Beginning of year</b>	<u>12,069,936</u>
<b>End of year</b>	<u><u>\$ 13,407,834</u></u>

See the accompanying notes to the financial statements.

## **PALO VERDE COMMUNITY COLLEGE DISTRICT**

Statement of Cash Flows-Primary Government, Continued  
For the Fiscal Year Ended June 30, 2017

---

### **Reconciliation of operating loss to cash used in operating activities**

Operating loss	\$ (17,017,622)
Depreciation and amortization	1,818,689
Pension expense	1,432,872
(Increase) decrease in accounts receivable	325,951
(Increase) decrease in prepaid expenses	(114,832)
Increase (decrease) in accounts payable	(23,971)
Increase (decrease) in other liabilities	<u>156,499</u>
<b>Net cash used in operating activities</b>	<b><u><u>\$ (13,422,414)</u></u></b>

See the accompanying notes to the financial statements.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Statements of Fiduciary Net Position  
June 30, 2017

---

	<u>ASB Trust Fund</u>	<u>Scholarship and Loan Trust Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,096	61,619
<b>TOTAL ASSETS</b>	<u>\$ 4,096</u>	<u>\$ 61,619</u>
<b>LIABILITIES</b>		
Due to student groups	\$ 4,096	\$ 61,619
<b>LIABILITIES AND NET POSITION</b>	<u>\$ 4,096</u>	<u>\$ 61,619</u>

See the accompanying notes to the financial statements.

## PALO VERDE COMMUNITY COLLEGE DISTRICT

Statements of Changes in Fiduciary Net Position  
For the Fiscal Year Ended June 30, 2017

---

	<b>ASB Trust Fund</b>	<b>Scholarship and Loan Trust Fund</b>
<b>ADDITIONS</b>		
Other local revenues	\$ 4,959	111,789
<b>Total Additions</b>	<u>4,959</u>	<u>111,789</u>
<b>DEDUCTIONS</b>		
Supplies and materials and other operating expenses and services	<u>4,343</u>	<u>112,879</u>
<b>CHANGE IN NET POSITION</b>	<u>616</u>	<u>(1,090)</u>
<b>Net Position - Beginning</b>	<u>3,480</u>	<u>62,709</u>
<b>Net Position - Ending</b>	<u><u>\$ 4,096</u></u>	<u><u>\$ 61,619</u></u>

See the accompanying notes to the financial statements.

## PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2017

### **NOTE 1 – ORGANIZATION**

Palo Verde Community College District (the “District”) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. The District consists of one community college campus located in Blythe, California and one college campus located in Needles, California. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, capital project funds, and proprietary funds, but these budgets are managed at the department level.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Financial Reporting Entity**

While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (“GASB”) Codification Section (Cod. Sec.) 2100.101. The District is classified as a state instrumentality under Internal Revenue Code Section 115.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Cod. Sec. 2100.101 as amended by GASB Cod. Sec. 2100.138. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the “direct benefit” criterion, the “entitlement/ability to access” criterion, and the “significance” criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, the District.

#### **Basis of Presentation and Accounting**

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

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

#### **Cash and Cash Equivalents**

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments**

The District records its investment in Riverside County Treasury at fair value. Changes in fair value are reported as revenue in the Statement of Revenues, Expenses and Changes in Net Position. The fair value of investments, at June 30, 2017, approximated their carrying value.

**Restricted Assets**

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets are classified on the Statement of Net Position because their use is limited by enabling legislation, applicable bond covenants, and other laws of other governments. Also, resources have been set aside to satisfy certain requirements of the bonded debt issuance and to fund certain capital asset projects.

**Accounts Receivable**

Accounts receivable consists primarily of amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. The District recognized for budgetary and financial reporting purposes any amount of State appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year.

**Prepaid Expenses**

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

**Capital Assets and Depreciation**

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings, as well as renovations to buildings, infrastructures, and land improvements, that significantly increase the value or extend the useful life of the structure are capitalized.

Depreciation of capital assets is computed and recorded by the straight-line method over the following estimated useful life:

<b><u>Asset Class</u></b>	<b><u>Estimated Useful Life</u></b>
Buildings	50
Land improvements	10
Equipment and vehicles	8
Technology equipment	3

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred Outflows / Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes 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/expenditures) until then. The District has two items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the District-wide Statement of Net Position. This represents the effects of the net change in the District's proportion of the collective net pension asset or liability and differences during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. Lastly is the District contributions to the pension system (PERS and STRS) subsequent to the measurement date.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element – deferred inflows of resources – represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. The item is related to pensions reported in the District-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense.

**Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

**Compensated Absences**

Accumulated unpaid employee vacation benefits are recognized as a liability of the District as compensated absences in the Statement of Net Position. 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 full-time load which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. 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 since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires and within the constraints of the appropriate retirement systems.

**Unearned Revenue**

Tuition and fees received prior to June 30 for classes and programs offered in the subsequent fiscal year are reported as 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 that cash received on specific projects and programs exceeds qualified expenditures.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Noncurrent Liabilities**

Noncurrent liabilities include bonds and notes payable, compensated absences, and OPEB obligations with maturities greater than one year.

**Pensions**

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

**Net Position**

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represents the difference between assets and liabilities. The net position is classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following categories:

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

***Restricted*** – Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

***Unrestricted*** – Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed.

**State Apportionments**

Certain current year apportionments from the State are based on various financial and statistical information of the previous year. Any prior year corrections due to a recalculation will be recorded in the year computed by the State.



**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when the County notifies the District of the availability of the revenues. A receivable has been accrued in these financial statements to reflect the amount of property taxes receivable as of June 30, 2017.

**Board of Governors Grants (BOGG) and Fee Waivers**

Student tuition and fee revenues and certain other revenues are reported, net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods, and the 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. To the extent that fee waivers have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

**Federal Financial Assistance Program**

The District participates in federally funded Pell Grants, SEOG grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is reported as other revenue. The amount reported as other revenue represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with Title 2 *U.S. Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

**On-Behalf Payments**

GASB Cod. Sec N50 requires that direct on-behalf payments for benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement System on behalf of all Community Colleges in California.

**Classification of Revenues**

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues as defined by GASB Cod. Sec. C05.101, including state appropriations, local property taxes, and investment income. Nearly all of the District's expenses are from exchange transactions.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenues are classified according to the following criteria:

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

*Non-operating revenues and expenses* – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as Pell grants, gifts and contributions, and other revenue sources described in GASB Cod. Sec. C05.101, such as State appropriations and investment income. Interest expense on capital related debt is the only non-operating expense.

**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.

**Interfund Activity**

Interfund transfers and interfund receivables and payables are eliminated within the primary government funds during the consolidation process in the entity-wide financial statements.

**New Accounting Standards**

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2017, the District implemented the following new standards issued by GASB:

- GASB Statement 73, “*Accounting and Financial Reporting for Pensions and Related Assets That Are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*”, effective for the year ending June 30, 2017.
- GASB Statement 74, “*Financial Reporting for Postemployment Benefits Other Than Pension Plans*”, effective for the year ending June 30, 2017.
- GASB Statement 77, “*Tax Abatement Disclosures*”, effective for the year ended June 30, 2017.
- GASB Statement 78, “*Pension Plans Provided through Multiple-Employer Defined Benefit Pension Plans*”, effective for the year ended June 30, 2017.
- GASB Statement 79, “*Certain External Investment Pools and Pool Participants*”, effective for the year ended June 30, 2017.
- GASB Statement 80, “*Blending Requirements for Certain Component Units-and amendment of GASB Statement No. 14*”, effective for the year ended June 30, 2017.

### **Future Changes in Accounting Standards**

GASB has issued Statement 75, “*Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions*”, which improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves the information provided by state and local governmental employers about support for OPEB that is provided by other entities. The District is currently studying the Statement and plans on adoption if and when required, which will generally be for the June 30, 2018 financial statements.

GASB has issued Statement 81, “*Irrevocable Split-Interest Agreements*”, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The District is currently studying the Statement and plans on adoption if and when required, which will generally be for the June 30, 2018 financial statements.

GASB has issued Statement 82, “*Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*”, which addresses certain issues that have been raised with respect to Statements No. 67, 68 and 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District is currently studying the Statement and plans on adoption if and when required, which will be for the June 30, 2018 financial statements. GASB has issued Statement 83, “*Certain Asset Retirement Obligations*”, which will enhance comparability of governments by establishing uniform criteria for governments to recognize and measure certain asset retirements obligations’ (ARO), including obligations that may not have been previously reported. An ARO is a legally enforceable liability associated with the retirement of a tangible capital assets. The District is currently studying the Statement and plans on adoption if and when required, which will be for the June 30, 2018 financial statements.

GASB has issued Statement No. 84, “*Fiduciary Activities*”, which will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The focus of the criteria is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The District is currently studying the Statement and plans on adoption if and when required, which will be for the June 30, 2018 financial statements.

GASB has issued Statement No. 85, “*Omnibus 2017*”, which will enhance consistency in the application of accounting and financial reporting requirements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The District is currently studying the Statement and plans on adoption if and when required, which will be for the June 30, 2018 financial statements.

GASB has issued Statement No. 86, “*Certain Debt Extinguishment Issues*”, which will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. The District is currently studying the Statement and plans on adoption if and when required, which will be for the June 30, 2018 financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Future Changes in Accounting Standards (continued)**

GASB has issued Statement No. 87, “Leases”, which will increase the usefulness of government’s financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were not classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The District is currently studying the Statement and plans on adoption if and when required, which will be for the June 30, 2021 financial statements

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Summary of Deposits and Investments**

As provided for by the Education Code, Section 41001, a significant portion of the District’s cash balances of most funds is deposited with the Riverside County Treasurer for the purpose of increasing interest earnings through County investment activities. The California Government Code requires California banks and savings and loan associations to secure the District’s deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency’s deposits. California law also allows financial institutions to secure an agency’s deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency’s total deposits and collateral is considered to be held in the name of the District. Substantially all cash held by financial institutions is entirely insured or collateralized.

Cash and equivalents, as of June 30, 2017, consist of the following:

	<u>District</u>	<u>Fiduciary</u>
Cash in County Treasury	\$ 13,380,205	\$ -
Cash on hand and in bank	22,629	65,715
Cash in revolving fund	<u>5,000</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 13,407,834</u>	<u>\$ 65,715</u>

**Policies and Practices**

Under provision of the District’s investment policy, and in accordance with Section 53601 and 53602 of the California Government Code, the District may invest in the following types of investments: The District is authorized under California Government Code to make direct investments in local agency bonds, notes or warrants with the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized obligations.

**NOTE 3 – DEPOSITS AND INVESTMENTS (continued)**

**Investment in County Treasury**

In accordance with the Budget and Accounting Manual, the District maintains a significant portion of its cash in the Riverside County Treasury as part of the common investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District’s deposits in this pool, as of June 30, 2017, as provided by the pool sponsor, was \$11,970,991, with an average maturity of 1.15 years. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**Interest Rate Risk**

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

**NOTE 3 – DEPOSITS AND INVESTMENTS (continued)**

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Government Code Sections 16430 and 53601 allow governmental entities to invest surplus moneys in certain eligible securities. The District has no investment policy that would further limit its investment choices.

**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 policy for custodial credit risk, but all public funds are invested in bonds or governmental backed (collateralized) securities at 110% on the amount of deposit.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government’s investment in a single issuer. The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

**NOTE 4 – RECEIVABLES**

Receivables, at June 30, 2017, consist of the following and are considered collectible in full:

	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Total</u>
General fund	\$ -	\$ 47,701	\$ 228,411	\$ 276,112
Child development fund	<u>7,358</u>	<u>5,760</u>	<u>-</u>	<u>13,118</u>
	<u>\$ 7,358</u>	<u>\$ 53,461</u>	<u>\$ 228,411</u>	<u>\$ 289,230</u>

**NOTE 5 – NOTE RECEIVABLE**

In August 2013, the District sold property located on Spring Street in Blythe, California for \$400,000. The District received a down payment of \$80,000 and a note receivable for \$320,000. The note is payable, principal and interest at 5%, in monthly installments of \$1,871. The note matures in May, 2038.

**NOTE 6 – CAPITAL ASSETS**

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

<b>Business-Type Activities</b>	Balance	<u>Additions</u>	<u>Deductions</u>	Balance
	<u>July 01, 2016</u>			<u>June 30, 2017</u>
<b>Historical Cost</b>				
Building	\$ 74,667,137	\$ -	\$ -	\$ 74,667,137
Construction in progress	84,477	-	-	84,477
Equipment	2,629,514	282,089	-	2,911,603
Land	926,137	-	-	926,137
Site improvements	1,286,659	-	-	1,286,659
Vehicles	208,285	6,669	-	214,954
Total historical cost	<u>79,802,209</u>	<u>288,758</u>	<u>-</u>	<u>80,090,967</u>
<b>Accumulated depreciation</b>				
Building	13,290,704	1,609,026	-	14,899,730
Equipment	2,193,287	125,740	-	2,319,027
Site improvements	668,566	45,496	-	714,062
Vehicles	117,102	11,418	-	128,520
Total accumulated depreciation	<u>16,269,659</u>	<u>1,791,680</u>	<u>-</u>	<u>18,061,339</u>
<b>CAPITAL ASSETS, NET</b>	<u><u>\$63,532,550</u></u>	<u><u>\$(1,502,922)</u></u>	<u><u>\$ -</u></u>	<u><u>\$62,029,628</u></u>

**NOTE 7 – ACCOUNTS PAYABLE**

Accounts payable, at June 30, 2017, consisted of the following:

	Business-Type Activities	Fiduciary Funds	Total
Interest	\$ 275,742	\$ -	\$ 275,742
Payroll	46,921	-	46,921
Construction	107,030	-	107,030
Vendor payable	1,395,852	-	1,395,852
	<u>\$ 1,825,545</u>	<u>\$ -</u>	<u>\$ 1,825,545</u>

**NOTE 8 – INTERFUND TRANSACTIONS**

**Interfund Receivables and Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity, within the governmental funds and fiduciary funds, have been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process.

**Interfund Operating Transfers**

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process.

**NOTE 9 – LONG-TERM OBLIGATIONS**

Long-term obligations, for the fiscal year ended June 30, 2017, are summarized as follows:

	Balance July 01, 2016	Additions	Deductions	Due in One Year	Long-term Balance
<b>Business-Type Activities</b>					
Other postemployment benefit obligation (OPEB)	\$ 28,429	\$ 115,732	\$ -	\$ -	\$ 144,161
Compensated absences	242,952	40,767	-	-	283,719
Net pension liability	6,975,972	5,302,429	-	-	12,278,401
Auto loan	20,446	-	5,143	5,362	9,941
Certificates of participation	13,930,000	14,155,000	13,930,000	470,000	13,685,000
General obligation bonds payable	16,784,879	-	666,764	226,547	15,891,568
Premiums and discounts	544,069	(42,249)	24,878	-	476,942
Accretion	672,844	106,686	-	-	779,530
	<u>\$ 39,199,591</u>	<u>\$ 19,678,365</u>	<u>\$ 14,626,785</u>	<u>\$ 701,909</u>	<u>\$ 43,549,262</u>

The compensated absences are paid by the fund for which the employees' salaries are paid from.



PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2017

**NOTE 9 – LONG-TERM OBLIGATIONS (continued)**

**Certificates of Participation**

In September 2006, the District approved certificates of participation (COPs) in the amount of \$18.6 million, to assist in providing timely cash flows during the construction period of the Physical Education Complex and the chiller plant until State reimbursements were received. The projects were completed in the Fall of 2008 and were 100% State reimbursed. The additional proceeds from the certificates of participation were used for computer upgrades for the District and other capital renovations on the Blythe and Needles campuses.

The District refinanced these Certificates of Participation in July 2008 taking advantage of lower interest rates. The District entered into these Certificates of Participation for working capital for construction projects, the Fine and Performing Arts Complex and Management Information Systems, due to the delay of payments for these projects approved by the State and the possibility that costs for some projects would exceed appropriated funds.

The District’s intentions for budgeting for repayment of these obligations were that upon receipt of reimbursement by the State, the monies were to be set aside in an interest bearing account. Monthly payments would be made from the interest bearing account leaving the balance to continue to earn interest; it was also the District’s intention to not use the funds for backfill of general funds.

In March, 2016, the District retired \$15,130,000 of the outstanding certificates of participation through the issuance of 2014 Series A General Obligation Bonds and a \$6,000,000 contribution from the District.

In December, 2016, the District issued \$14,155,000 of 2016 Refunding Certificates of Participation. The COPS were issued to refund the remaining portion of the 2008 Certificates of Participation. The bonds require principal and interest payments through August 1, 2045. Annual interest rate for these bonds range from 2.0%-4.0%.

The annual debt requirements on these certificates, payable as of June 30, 2017, are as follows:

Year Ended			
June 30,	Principal	Interest	Total
2018	\$ 470,000	\$ 555,560	\$ 1,025,560
2019	500,000	524,988	1,024,988
2020	520,000	504,988	1,024,988
2021	545,000	484,188	1,029,188
2022	565,000	462,388	1,027,388
2023-2027	3,195,000	1,959,590	5,154,590
2028-2032	3,775,000	1,368,064	5,143,064
2033-2037	4,585,000	564,200	5,149,200
	<u>\$ 14,155,000</u>	<u>\$ 6,423,966</u>	<u>\$ 20,578,966</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2017

**NOTE 9 – LONG-TERM OBLIGATIONS (continued)**

**General Obligation Bonds Payable**

General obligation bonds of up to \$6,000,000 were approved by election in June 2005 and were to be used to finance real property improvements to the District’s Needles campus. In October 2005, the District issued the first series on these available bonds amounting to \$2,946,254. The District took a second drawdown in September 2006, amounting to \$3,053,625. The improvements on the Needles campus were completed in the Fall of 2009. All debt repayments will be made by the County from property tax revenues.

In March, 2016, the District issued \$3,470,000 of 2016 General Obligation Refunding Bonds. The bonds were issued to refund a portion of the 2005 bonds and a portion of the 2006 bonds. The bonds required principal and interest payments through August 1, 2035. Annual interest rates for these bonds range from 2.0%-4.0%. The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$58,873. This difference, reported in the accompanying financial statements as a deferred loss on refunding, is being charged to operations through the year 2035 using the straight line method.

In March, 2016 the District issued \$12,500,000 of 2014 Series A General Obligation Bonds. The bonds were issued to refund a portion of the Certificates of Participation, as well as provide for the acquisition, construction, and improvements of additional educational facilities. The bonds require principal and interest payments through August 1, 2045. Annual interest rates for these bonds range from 2.0%-4.0%.

A portion of the net proceeds, after issuance costs of \$291,970, (along with a District contribution of \$6,000,000) were used to purchase U.S. Government securities for the purpose of paying the debt requirements of \$15,130,000 of the outstanding Certificates of Participation. As a result, a portion of the Certificates of Participation are considered to be defeased and the liability for those certificates has been removed from the government-wide statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying of the old debt of \$692,535. This difference, reported in the accompanying financial statements as a deferred loss on refunding, is being charged to operations through the year 2035 using the straight line method.

The annual debt requirements on these bonds payable, as of June 30, 2017, are as follows:

Year Ended June 30,	Principal	Interest	Accreted Interest	Total
2018	\$ 226,548	\$ 545,763	\$ 43,453	\$ 815,764
2019	232,942	539,688	52,058	824,688
2020	300,000	532,113	-	832,113
2021	325,000	522,738	-	847,738
2022	410,000	511,712	-	921,712
2023-2027	2,095,092	2,381,196	724,908	5,201,196
2028-2032	2,583,533	2,070,756	1,721,466	6,375,755
2033-2037	2,470,000	1,703,097	-	4,173,097
2038-2042	3,485,000	1,170,500	-	4,655,500
2043-2047	3,990,000	334,600	-	8,649,200
Total	<u>\$ 16,118,115</u>	<u>\$ 10,312,163</u>	<u>\$ 2,541,885</u>	<u>\$ 33,296,763</u>

**NOTE 9 – LONG-TERM OBLIGATIONS (continued)**

**Other Postemployment Benefit (OPEB) Obligation**

The District implemented GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District’s annual required contribution, for the year ended June 30, 2017, was \$133,116 and contributions made by the District during the year were \$16,918. Interest on the net OPEB obligation was \$1,279, and the adjustment to annual required contribution was (\$1,745); which resulted in a net OPEB liability (asset) for 2017 of \$28,429. See Note 10 for additional information regarding the OPEB Obligation and the postemployment plan.

**NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS**

The District provides postemployment health care benefits to eligible retirees in accordance with negotiated contracts with various bargaining units of the District. The District implemented the new reporting requirements of GASB Statement No. 45, *Accounting and Financial Report by Employers for Postemployment Benefits Other Than Pensions (OPEB)* prospectively for the fiscal year ended June 30, 2010.

**Plan Description**

The plan is a single-employer OPEB defined benefit healthcare plan administered by the Palo Verde Community College District. The plan provides postemployment medical benefits to eligible retirees and their dependents.

**Funding Policy**

The contribution requirements are established and may be amended by the District and the District’s bargaining units. The plan is currently funded on a projected pay-as-you-go basis.

**Annual OPEB Cost and Net OPEB Obligation**

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess over a period not to exceed thirty years. The District has elected to amortize the unfunded liability over thirty years.

The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the Plan:

Annual required contribution	\$ 133,116
Interest on net OPEB obligation	1,279
Adjustment to annual required contribution	<u>(1,745)</u>
Annual OPEB cost (expense)	132,650
Contributions made	<u>(16,918)</u>
Increase in net OPEB obligation	115,732
Net OPEB obligation (asset), beginning of year	<u>28,429</u>
Net OPEB obligation (asset), end of year	<u><u>\$ 144,161</u></u>

**NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Funded Status and Funding Progress**

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

**Actuarial Methods and Assumptions**

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

In the April, 2016 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 4.5% percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare cost increases were estimated at 4 percent annually. The UAAL is being amortized at a level dollar method. There is no actuarial value of assets because those funds have not been placed in an irrevocable trust. The District has earmarked funds held in the County Treasury for funding of the OPEB obligation but has not elected to place those assets in an irrevocable trust; therefore, there is no actuarial value of plan assets.

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers’ Retirement System (CalSTRS) and classified employees are members of the California Public Employees’ Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net	Deferred	Deferred	
	Pension Liability	Outflows Related to Pensions	Inflows Related to Pensions	Pension Expense
CalSTRS	\$ 8,023,463	\$ 1,057,429	\$ (146,154)	\$ 1,692,069
CalPERS	4,254,938	1,881,594	(572,976)	144,695
	<u>\$ 12,278,401</u>	<u>\$ 2,939,023</u>	<u>\$ (719,130)</u>	<u>\$ 1,836,764</u>

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)**

**Benefits Paid**

CalSTRS and CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year full-time employment. Members with five years of total service are eligible for retirement benefits. Employees hired after January 1, 2013 (PEPRA) are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 (non-PEPRA) are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of service.

**CalSTRS**

**Plan Description**

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Contributions**

Active 2% at 60 Non-PEPRA members and active 2% at 62 PEPRA plan members are required to contribute 10.25 and 9.205 percent of their salary, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016-2017 was 12.58 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

**CalPERS**

**Plan Description**

The District contributes to the School Employer Pool 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 Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

**Contributions**

Active 2% at 60 Non-PEPRA members and 2% at 62 PEPRA plan members are required to contribute 7.0 percent and 6.0 percent of their salary, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016-2017 was 13.888 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)**

**Pension Liabilities, Pension Expenses, and Deferred Outflows / Inflows of Resources Related to Pensions**

At June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

	Proportionate Share of Net Pension Liability
CalSTRS	<u>\$ 8,023,463</u>
CalPERS	<u>4,254,938</u>
Total Net Pension Liability	<u><u>\$ 12,278,401</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 districts, actuarially determined.

The District's proportionate share of the net pension liability for each plan as of June 30, 2016 and June 30, 2017 were as follows:

	CalSTRS			
	District's Proportionate Share	State's Proportionate Share	Total For District Employees	CalPERS
Proportion June 30, 2016	0.0102%	0.0051%	0.0153%	0.0218%
Proportion June 30, 2017	0.0099%	0.0054%	0.0153%	0.0215%
Change in Proportion	<u>-0.0003%</u>	<u>0.0003%</u>	<u>0.0000%</u>	<u>-0.0002%</u>

For the year ended June 30, 2017, the District recognized CalSTRS pension expense of \$1,692,069 and CalPERS pension expense of \$144,695. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources			Deferred Inflows of Resources		
	CalSTRS	CalPERS	Total	CalSTRS	CalPERS	Total
Pension contributions subsequent to measurement date	\$ 674,896	\$ 454,772	\$ 1,129,668	\$ -	\$ -	\$ -
Differences between actual and expected experience	-	216,872	216,872	(1,515)	-	(1,515)
Changes in assumptions	-	-	-	-	(159,020)	(159,020)
Changes in employer's proportionate share	380,248	125,599	505,847	(144,639)	(25,507)	(170,146)
Net difference between projected and actual earnings	-	-	-	-	-	-
	<u>2,285</u>	<u>1,084,351</u>	<u>1,086,636</u>	<u>-</u>	<u>(388,449)</u>	<u>(388,449)</u>
Total	<u><u>\$ 1,057,429</u></u>	<u><u>\$ 1,881,594</u></u>	<u><u>\$ 2,939,023</u></u>	<u><u>\$ (146,154)</u></u>	<u><u>\$ (572,976)</u></u>	<u><u>\$ (719,130)</u></u>

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)**

\$1,129,668 reported as deferred outflows of resources related to pensions 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 reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as an increase or decrease to pension expense over a five year period. Pension expense resulting from deferred outflows and deferred inflows or resources will be recognized as follows:

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>STRS</u>	<u>PERS</u>
Valuation date	June 30, 2015	June 30, 2015
Measurement date	June 30, 2016	June 30, 2016
Actuarial cost method	Entry age normal	Entry age normal
Discount rate	7.6%	7.65%
Investment rate of return	7.6%	7.65%
Consumer price inflation	3.0%	2.75%
Wage growth	3.75%	3.0%

**CalSTRS**

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary’s investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns.

**CalPERS**

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 five years of projected ongoing mortality improvements using Scale AA 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’ assets classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter or one percent.

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table

CalSTRS			CalPERS			
Asset Class	Assumed	Long Term	Asset Class	Assumed	Real	Real
	Allocation	Expected		Allocation	Return	Return
	6/30/2016	Return*		6/30/2016	Yrs 1-10(1)	Yrs 11+(2)
Global Equity	47.00%	6.30%	Global Equity	51.00%	5.25%	5.71%
Fixed Income	12.00%	0.30%	Global Debt Sec.	20.00%	0.99%	2.43%
Real Estate	13.00%	5.20%	Inflation Assets	6.00%	0.45%	3.36%
Private Equity	13.00%	9.30%	Private Equity	10.00%	6.83%	6.95%
Absolute Return	9.00%	2.90%	Real Estate	10.00%	4.50%	5.13%
Inflation Sensitive	4.00%	3.80%	Infrastructure	2.00%	4.50%	5.09%
Cash/Liquidity	2.00%	-1.00%	Liquidity	1.00%	-0.55%	-1.05%

\*20 year geometric average used for long term expected real rate of return.

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

**Discount Rate**

The discount rate used to measure the total pension liability was 7.6 percent for STRS and 7.65 percent for PERS. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.6 percent and 7.65 percent for STRS and PERS, respectively, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate for each plan:

	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%
Net Pension Liability	\$ 11,547,575	\$ 6,348,390
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 8,023,463	\$ 4,254,938
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 5,096,543	\$ 2,511,726



**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)**

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

**Social Security**

As established by Federal law, all public sector employees who are not members of their employer’s existing retirement systems (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan.

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS of approximately \$403,894 (8.578% of salaries subject to CalSTRS). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

**NOTE 12 – FUNCTIONAL EXPENSES**

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes in net position for the year ended June 30, 2017.

	<b>Salaries and Benefits</b>	<b>Supplies, Materials &amp; Other Expenses &amp; Services</b>	<b>Utilities</b>	<b>Payments to Students</b>	<b>Depreciation</b>	<b>Total</b>
Admissions and records	\$ 370,805	\$ 48,536		\$ -		\$ 419,341
Ancillary services	32,898	26,591				59,489
Auxilliary operations	1,285	155,311				156,596
Community services		896				896
General institutional support services	1,700,665	709,963				2,410,628
Instructional activities	7,673,241	1,359,236	338,948			9,371,425
Instructional administration	951,563	449,336				1,400,899
Instructional support services	207,713	41,464				249,177
Planning, policy making, coordination, general support	624,788	305,293				930,081
Plant operations and maintenance	491,010	949,691				1,440,701
Student services-counseling and guidance	1,067,459	314,694				1,382,153
Students services-other	1,335,477	435,181				1,770,658
Transfers and student payments				1,312,882	-	1,312,882
Depreciation					1,818,689	1,818,689
	<u>\$ 14,456,904</u>	<u>\$ 4,796,192</u>	<u>\$ 338,948</u>	<u>\$ 1,312,882</u>	<u>\$ 1,818,689</u>	<u>\$ 22,723,615</u>

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

**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 expenditures disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

**Litigation**

The District is currently involved in claims relating to employee matters and various construction claims on the Fine and Performing Arts Project, and intends to vigorously contest these claims. While the ultimate liability, if any, arising from these claims cannot be predicted with certainty, the District believes that the resolution of these matters will not likely have a material effect on the District's financial statements.

**NOTE 14 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District's risk management activities are recorded in the General Fund. The District participates in various public entity risk pools (JPAs) for its health and welfare benefits, workers' compensations benefits, and property/liability insurance. Refer to Note 15 for additional information regarding the JPAs.

**NOTE 15 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES**

Palo Verde Community College District participates in five joint ventures under joint powers agreements (JPAs): Community Colleges of Riverside County Self Insurance Program for Employees (CCRCSIPE), Schools Excess Liability Fund (SELF), Riverside Schools Insurance Authority (RSIA), Riverside County Employer/Employee Partnership for Benefits Plan (REEP) and Riverside Schools Risk Management Association (RSRMA). The relationships between the District and JPA's are such that the JPA's are not a component unit of the Palo Verde Community College District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

**NOTE 17 - SUBSEQUENT EVENTS**

The District has evaluated subsequent events through December 21, 2017, which is the date these financial statements were issued. All subsequent events requiring recognition, as of June 30, 2017, have been incorporated into these financial statements herein.

**REQUIRED SUPPLEMENTARY INFORMATION**

---

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of Other Postemployment Benefits (OPEB) Funding Progress  
For the Fiscal Year Ended June 30, 2017

---

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funding Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
March 1, 2010	\$ -	\$ 926,335	\$ 926,335	0.00%	\$ 9,223,000	10.04%
April 1, 2013	\$ -	\$ 1,555,904	\$ 1,555,904	0.00%	\$ 6,899,178	22.55%
April 1, 2016	\$ -	\$ 1,274,465	\$ 1,274,465	0.00%	\$ 7,644,255	16.67%

The accompanying notes are an integral part of these financial statements.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of the District's Proportionate Share of the Net Pension Liability  
For the Three Fiscal Years Ended June 30, 2017\*

	2015		2016		2017	
	PERS	STRS	PERS	STRS	PERS	STRS
District's proportion of the net pension liability (asset)	0.0199%	0.0054%	0.0218%	0.0102%	0.0215%	0.0099%
District's proportionate share of the net pension liability (asset)	\$ 2,260,983	\$ 8,023,463	\$ 3,207,479	\$ 6,859,372	\$ 4,254,938	\$ 8,023,463
District's covered-employee payroll	\$ 2,419,879	\$ 5,364,833	\$ 2,608,897	\$ 4,928,639	\$ 3,274,568	\$ 5,364,833
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	93.43%	149.56%	122.94%	139.17%	129.94%	149.56%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	70.04%	79.43%	74.02%	73.90%	70.04%

\*Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown

The accompanying notes are an integral part of these financial statements.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of the District's Pension Contributions  
For the Three Fiscal Years Ended June 30, 2017\*

	2015		2016		2017	
	<u>PERS</u>	<u>STRS</u>	<u>PERS</u>	<u>STRS</u>	<u>PERS</u>	<u>STRS</u>
Contractually required contribution	\$ 284,844	\$ 418,101	\$ 309,076	\$ 528,843	\$ 454,772	\$ 674,896
Contributions in relation to the contractually required contribution	<u>284,844</u>	<u>418,101</u>	<u>309,076</u>	<u>528,843</u>	<u>454,772</u>	<u>674,896</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$2,419,879	\$4,708,345	\$2,608,897	\$4,928,639	\$3,274,568	\$5,364,833
Contributions as a percentage of covered-employee payroll	11.771%	8.880%	11.847%	10.730%	13.888%	12.580%

\*Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown

The accompanying notes are an integral part of these financial statements.

**SUPPLEMENTARY INFORMATION**

---

# **PALO VERDE COMMUNITY COLLEGE DISTRICT**

History and Organization  
June 30, 2017

---

## **ORGANIZATION**

The Palo Verde Community College was established in 1947 and became a separate district in 1973. The District is located in the eastern portion of Riverside County. The District annexed the City of Needles during 1999. There were no other changes to the boundaries of the District during the year. The District operates a campus in Blythe, California and a campus in Needles, California. The District relocated to its newly constructed campus in Blythe in August, 2001.

The District provides the first two years of instruction transferable to accredited four-year colleges and universities, as well as vocational and technical education.

## **BOARD OF TRUSTEES**

The District is governed by a Board of Trustees, consisting of five members, who are elected to staggered four-year terms. The members and officers of the Board of Trustees, as of June 30, 2017, were as follows:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
George Thomas	President	2018
Suzanne Woods	Vice-President	2018
Edmundo Gonzales	Clerk	2020
Brad Arneson	Trustee	2018
Jerry Lewis	Trustee	2018
Stella Camargo-Styers	Trustee	2020
Debra Mitchell	Trustee	2020
Sunil Lal	Student Trustee	2018

## **DISTRICT ADMINISTRATION**

Donald G. Wallace, Ph.D.	Superintendent/President
Maureen Davis	Interim Vice President Administrative Services
Sean Hancock	Vice-President of Instructional and Student Services

See the accompanying note to the supplementary information.



**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster: [1]			
Federal Pell Grants	84.063		\$ 969,755
Federal Pell Administrative	84.063		1,370
Federal Supplement Education Opportunity (FSEOG)	84.007		42,385
Federal Work Study Program (FWS)	84.033		33,670
Subtotal Student Financial Assistance Cluster			<u>1,047,180</u>
CAREER AND TECHNICAL EDUCATION ACT			
Passed through from the California Community Colleges Chancellor's Office			
Career and Technical Education, Title 1-C	84.048	12-C01-038	<u>126,030</u>
Total U.S. Department of Education			<u>1,173,210</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Temporary Assistance to Needy Families (TANF)	93.558		<u>30,811</u>
Total U.S. Department of Health and Human Services			<u>30,811</u>
U.S. Department of Agriculture			
Passed through California Department of Education			
Child Care Food Program	10.558	*	<u>34,178</u>
Total U.S. Department of Agriculture			<u>34,178</u>
<b>Total Federal Expenditures</b>			<u><u>\$ 1,238,199</u></u>

[1]: Major Program

\*Passthrough Identifying number not available

See the accompanying note to the supplementary information.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of Expenditures of State Awards  
For the Fiscal Year Ended June 30, 2017

Program Name	Program Revenues			Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income		
Adult Basic Education Grant (AB86)	\$ 773,016	\$ -	\$ (8,724)	\$ 781,740	\$ 781,740
Basic Skills & Initiative	90,000	-	(24,864)	114,864	114,864
California Work Opportunity & Responsibility to	134,456		(27,116)	161,572	161,572
Cooperative Agencies & Resources for Education	60,991	-	-	60,991	60,991
Disabled Students Programs & Services	179,649	-	(31,019)	210,668	210,668
Extended Opportunity Programs & Services	470,455	-	-	470,455	470,455
Instructional Equip/Scheduled Maintenance	313,887	-	87,345	226,542	226,542
Student Success-Credit	694,216	-	(21,985)	716,201	716,201
Student Success-Non Credit	38,625	-	38,625	-	-
Student Equity	250,000		(92,775)	342,775	342,775
Strengthening Career Technical Education	43,788	-	4,301	39,487	39,487
Student Financial Aid Administration	154,467	-	19,222	135,245	135,245
Lottery	62,933	-	-	62,933	62,933
TANF	29,263			29,263	29,263
Prop 39	23,000			23,000	23,000
Full Time Student Success	14,494			14,494	14,494
Strong Workforce Program	234,242	-	-	234,242	234,242
	<u>\$ 3,567,482</u>	<u>\$ -</u>	<u>\$ (56,990)</u>	<u>\$ 3,624,472</u>	<u>\$ 3,624,472</u>

See the accompanying note to the supplementary information.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of Workload Measure(s) for State General Apportionment Annual (Actual) Attendance  
For the Fiscal Year Ended June 30, 2017

---

	<u>Reported Data</u>
A. Summer Intersession (Summer 2016 only)	
1. Noncredit	10.96
2. Credit	263.28
B. Summer Intersession (Summer 2017 - Prior to July 1, 2017)	
1. Noncredit	-
2. Credit	12.28
C. Primary Terms (Exclusive of Summer Intersession)	
1. Census Procedure Courses	
(a) Weekly Census Contact Hours	345.05
(b) Daily Census Contact Hours	17.74
2. Actual Hours of Attendance	
(a) Noncredit	126.11
(b) Credit	449.37
3. Alternative Attendance Accounting Procedure	
(a) Weekly Census Contact Hours	852.03
(b) Daily Census Contact Hours	-
(c) Noncredit Independent Study/Distance Education Courses	-
Total FTES	<u>2,076.82</u>
Total Credit FTES	1,939.75
Total Noncredit FTES	<u>137.07</u>
Total FTES	<u>2,076.82</u>
Supplemental Information (subset of above information)	
In-Service Training Courses	540.00
Basic Skills Courses & Immigrant Education	
1. Noncredit	118.02
2. Credit	157.05

See the accompanying note to supplementary information.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation  
 For the Fiscal Year Ended June 30, 2017

	Object Codes	ESC 84362 A Instructional Salary Cost AC 0100 - and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adj	Revised Data	Reported Data	Audit Adj	Revised Data
<b>Instructional Salaries</b>							
Contract or Regular	1100	\$ 3,226,588		\$ 3,226,588	\$ 3,226,588		\$ 3,226,588
Other	1300	747,982		747,982	747,982		747,982
<b>Total Instructional Salaries</b>		3,974,570		3,974,570	3,974,570		3,974,570
<b>Non-Instructional Salaries</b>							
Contract or Regular	1200				921,905		921,905
Other	1400				38,468		38,468
<b>Total Non-Instructional Salaries</b>					960,373		960,373
<b>Total Academic Salaries</b>		3,974,570		3,974,570	4,934,943		4,934,943
<b>Classified Salaries</b>							
<b>Non-Instructional Salaries</b>							
Regular Status	2100				2,613,601		2,613,601
Other	2300				57,244		57,244
<b>Total Non-Instructional Salaries</b>					2,670,845		2,670,845
<b>Instructional Aides</b>							
Regular Status	2200	-		-	-		-
Other	2400	-		-	-		-
<b>Total Instructional Aides</b>		-		-	-		-
<b>Total Classified Salaries</b>		-		-	2,670,845		2,670,845
<b>Employee Benefits</b>	3000	1,322,054		1,322,054	2,674,584		2,674,584
<b>Supplies and Materials</b>	4000				92,467		92,467
<b>Other Operating Expenses</b>	5000	1,751,223		1,751,223	3,585,567		3,585,567
<b>Equipment Replacement</b>	6420						
<b>Total Expenditures Prior to Exclusions</b>		7,047,847		7,047,847	13,958,406		13,958,406

See the accompanying note to supplementary information.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation, Continued  
 For the Fiscal Year Ended June 30, 2017

	Object Codes	ESC 84362 A Instructional Salary Cost AC 0100 - and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adj	Revised Data	Reported Data	Audit Adj	Revised Data
<b>Activities to Exclude</b>							
Instructional Staff - Retirees' Benefits and Retirement	5900	110,648		110,648	110,648		110,648
Student Health Services Above Amount	6441						
Student Transportation	6491				18,960		18,960
Non-Instructional Staff - Retirees' Benefits and Retirement	6740				59,058		59,058
<b>Objects to Exclude</b>							
Rents and Leases	5060				329,401		329,401
Lottery Expenditures							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials	4000						
Software	4100						
Books, Magazines, & Periodicals	4200						
Instructional Supplies & Materials	4300						
Noninstructional, Supplies & Materials	4400						
<b>Total Supplies and Materials</b>							
Other Operating Expenses and Services	5000				-		-
Capital Outlay	6000						
Library Books	6300						
Equipment	6400						
Equipment - Additional	6410						
Equipment - Replacement	6420						
<b>Total Equipment</b>							
<b>Total Capital Outlay</b>							
Other Outgo	7000						
<b>Total Exclusions</b>		110,648		110,648	518,067		518,067
<b>Total for ECS 84362, 50% Law</b>		\$ 6,937,199		\$ 6,937,199	\$ 13,440,339		\$ 13,440,339
<b>Percent of CEE (Instructional Salary Cost / Total CEE)</b>		51.61%		51.61%	100%		100%
<b>50% of Current Expense of Education</b>					\$ 6,720,169		\$ 6,720,170

See the accompanying note to supplementary information.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Reconciliation of Education Protection Account Funds (EPA)  
 For the Fiscal Year Ended June 30, 2017

---

Activity Classification	Object Code				Unrestricted
<b>EPA Proceeds:</b>	<b>8630</b>				\$ 2,295,600
Activity Classification	Activity Code	Salaries and Benefits	Operating Expenses	Capital Outlay	
		(Obj 1000-3000)	(Obj 4000-5000)	(Obj 6000)	Total
Instructional Activities	0100-5900	\$ 2,295,600	-	-	2,295,600
<b>Total Expenditures for EPA</b>		\$ 2,295,600	-	-	2,295,600
<b>Revenues Less Expenditures</b>					\$ -

See the accompanying note to supplementary information

# PALO VERDE COMMUNITY COLLEGE DISTRICT

## Reconciliation of Governmental Funds to the Statement of Net Position June 30, 2017

---

### Total Fund Balance and Retained Earnings:

General Funds	\$ 5,085,418	
Special Revenue Funds	6,303	
Capital Outlay Projects	3,943,905	
Debt Service Funds	1,195,558	
Proprietary Funds	290,735	
Internal Service Funds	1,620,923	
Fiduciary Funds	<u>70,123</u>	

**Total Fund Balances and Retained Earnings - All District Funds** \$ 12,212,965  
**Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	80,090,967	
Accumulated depreciation is	<u>(18,061,339)</u>	
Net Capital Assets		62,029,628

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions	2,939,023	
Deferred inflows of resources relating to pensions	<u>(719,130)</u>	2,219,893

In governmental funds, deferred inflows and deferred outflows of resources resulting from defeasance of debt are not recorded. In governmental activities, for advance refundings resulting in defeasance of debt reported in governmental activities, the difference between reacquisition price and the net carrying amount of the retired debt are reported as deferred outflows of resources.

717,646

Other long-term assets, such as notes receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds

299,176

Amounts held in trust on behalf of others (Trust and Agency Funds)

(65,715)

In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are amortized over the life of the debt.

165,631

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.

(275,731)

See the accompanying note to supplementary information

# PALO VERDE COMMUNITY COLLEGE DISTRICT

## Reconciliation of Governmental Funds to the Statement of Net Position (continued) June 30, 2017

---

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

Bonds payable	(16,897,645)	
Certificates of participation	(14,155,000)	
Auto loan	(15,303)	
Net pension liability	(12,278,401)	
Compensated absences (vacations)	(283,719)	
Other postemployment benefits (OPEB)	(144,161)	
	<hr/>	
Total Long-Term Obligations		(43,774,229)
<b>Total Net Position - Governmental Activities</b>		<u><u>\$ 33,529,264</u></u>

See the accompanying note to supplementary information



## PALO VERDE COMMUNITY COLLEGE DISTRICT

Note to Supplementary Information  
June 30, 2017

---

### PURPOSE OF SCHEDULES

**History and Organization** – This schedule provides information about the District’s organization, members of the governing board, and administration members.

**Schedule of Expenditures of Federal Awards** – The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

**Schedule of Expenditures of State Awards** – The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor’s Office.

**Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance** – FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

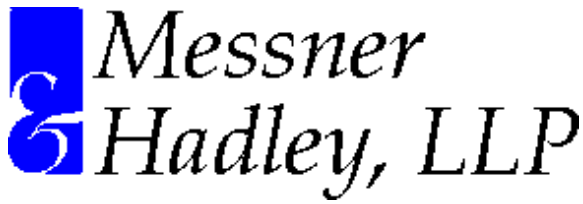
**Reconciliation of Education Code Section 84362 (50 percent Law) Calculation** – ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor’s Office. This schedule provides a reconciliation of the amount reported to the State Chancellor’s Office and the impact of any audit adjustments and/or corrections noted during the audit.

**Reconciliation of Education Protection Account Funds** – This schedule provides the District’s summary of receipts and uses of the monies received through the EPA.

**Reconciliation of Governmental Funds to the Statement of Net Position** – This schedule provides a reconciliation of the adjustments necessary to bring the District’s internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

## **INDEPENDENT AUDITORS' REPORTS**

---



Certified Public Accountants

Paul S. Messner, CPA  
Cindra J. Hadley, CPA  
James M. Quinn, CPA, CFE

**INDEPENDENT AUDITORS 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***

The Board of Trustees  
Palo Verde Community College District  
Blythe, 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 the business-type activities and the fiduciary activities of Palo Verde Community College District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of Findings and questioned costs that we consider to be significant deficiencies. See finding 2017-001.

The Board of Trustees  
Palo Verde Community College District

### **Compliance and Other Matters**

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

### **Response to Finding**

Palo Verde Community College District's (the "District") response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California  
December 21, 2017



Paul S. Messner, CPA  
Cindra J. Hadley, CPA  
James M. Quinn, CPA, CFE

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Trustees  
Palo Verde Community College District  
Blythe, California

**Report on Compliance for Each Major Federal Program**

We have audited Palo Verde Community College District's (the "District") compliance with the types of compliance requirements described in OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2017. The District's major Federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of federal awards.

**Auditors' 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 Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements and 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 consider 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.

**The Board of Trustees  
Palo Verde Community College District**

**Opinion on Each Major Federal Program**

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

**Report on Internal Control Over Compliance**

Management of 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 in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

**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.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California  
December 21, 2017



Paul S. Messner, CPA  
Cindra J. Hadley, CPA  
James M. Quinn, CPA, CFE

## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

The Board of Trustees  
Palo Verde Community College District  
Blythe, California

### **Report on State Compliance**

We have audited Palo Verde Community College District's (the "District") compliance with the state laws and regulations in accordance with Section 400 of the Chancellor's Office's California Community Colleges Contracted District Audit Manual (CDAM) for the year ended June 30, 2017 and issued our report thereon December 21, 2017.

### **Management's Responsibility**

Management is responsible for the compliance with the requirements of State laws and regulations, and the terms and conditions identified in the California Community Colleges Chancellor's Office District Audit Manual issued in March 2017.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance of each of the District's programs based on our audit of the types of compliance requirements referred to above. 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, and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued March 2017. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

## Unmodified Opinion on Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2017.

The Board of Trustees  
Palo Verde Community College District

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations in accordance with Section 400 of the Chancellor's Office's California Community College Contracted District Audit Manual (CDAM):

- Section 421 Salaries of Classroom Instructors (50 Percent Law)
- Section 423 Apportionment for Instructional Service Agreements/Contract
- Section 424 State General Apportionment Funding System
- Section 425 Residency Determination for Credit Courses
- Section 426 Students Actively Enrolled
- Section 427 Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Section 428 Student Equity
- Section 429 Student Success and Support Program (SSSP)
- Section 430 Scheduled Maintenance Program
- Section 431 Gann Limit Calculation
- Section 435 Open Enrollment
- Section 439 Prop 39 Clean Energy Fund
- Section 440 Intersession Extension Program
- Section 475 Disabled Student Programs and Services (DSPS)
- Section 479 To Be Arranged (TBA) Hours
- Section 490 Proposition 1D State Bond Funded Projects
- Section 491 Proposition 30 Education Protection Account Funds

## Purpose of This Report

This report is intended solely for the information and use of the District's management, the Board of Trustees, and others within the District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California  
December 21, 2017



## **FINDINGS AND RECOMMENDATIONS**

---

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of Findings and Questioned Costs  
June 30, 2017

---

**SECTION 1 – SUMMARY OF AUDITORS’ RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Code of Federal Regulations, Chapter 2, Part 200, Section .510(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007,84.032,84.063</u>	<u>Student Financial Aid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for State programs:	<u>Unmodified</u>

# PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs  
June 30, 2017

---

## SECTION 2 – FINANCIAL STATEMENT FINDINGS

### 2017-001 Annual Financial and Budget Report (CCFS-311) (Significant deficiency)

**Criteria** Accounting principles generally accepted in the United State of America, as prescribed by the Governmental Accounting Standards Board, require entities to establish and maintain effective internal control over financial reporting to prepare timely, accurate financial reports.

**Condition** The Annual Financial and Budget Report (CCFS-311) financial statements were inaccurate and did not completely reconcile to the trial balance.

**Questioned Costs** None

**Context** Various financial elements were not accurately stated.

**Effect** Inaccuracies in District financial statements decrease the relevance and usefulness of the financial statements.

**Cause** The District's closing process did not ensure that the CCFS-311 was accurately prepared.

**Recommendation** The District should ensure that the CCFS-311 is reconciled completely to the trial balance to ensure that accurate, timely information is reported to the users of the financial information.

**District Response** The District has input steps to train staff to resolve this in the future as well as implementing a detailed reviewing of the CCFS-311.

**PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of Findings and Questioned Costs  
June 30, 2017

---

**SECTION 3 – FEDERAL AWARDS FINDINGS**

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

# **PALO VERDE COMMUNITY COLLEGE DISTRICT**

Schedule of Findings and Questioned Costs  
June 30, 2017

---

## **SECTION 4 – STATE AWARDS FINDINGS**

The results of our tests did not disclose any findings and questioned costs related to the State awards.

# **PALO VERDE COMMUNITY COLLEGE DISTRICT**

Status of Prior Year Findings and Questioned Costs  
June 30, 2017

---

## **FINANCIAL STATEMENT FINDINGS**

There were no prior year findings or questioned costs.

## **FEDERAL AWARDS FINDINGS**

There were no prior year findings or questioned costs.

## **STATE AWARDS FINDINGS**

### **2016-001 424 - GENERAL APPORTIONMENT FUNDING SYSTEM INTERNAL CONTROL (Significant deficiency)**

**Recommendation** We recommend the District ensure tabulations submitted by the District for apportionment funding are supported by and agree to attendance records in accordance with CCR, Title 5, Sections 58020-58024. We further recommend that district personnel are adequately trained in the calculation of contact hours and that all records go through a review process prior to submittal.

**Current Status** Implemented

### **2016-002 424-STATE APPORTIONMENT FUNDING SYSTEM**

**Recommendation** We recommend the District ensure tabulations submitted by the District for apportionment funding are supported by and agree to attendance records in accordance with CCR, Title 5, Sections 58020-58024. We further recommend that district personnel are adequately trained in the calculation of contact hours and that all records go through a review process prior to submittal.

**Current Status** Implemented