

**PALO VERDE COMMUNITY
COLLEGE DISTRICT**

**County of Riverside
Blythe, California**

**REPORT ON AUDIT
June 30, 2018**

PALO VERDE COMMUNITY COLLEGE DISTRICT

Table of Contents
June 30, 2018

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

Schedule of Changes in the District’s Total OPEB Liability and Related Ratios..... 49
Schedule of the District’s Proportionate Share of the Net Pension Liability..... 50
Schedule of the District’s Pension Contributions..... 51

SUPPLEMENTARY INFORMATION

History and Organization..... 52
Schedule of Expenditures of Federal Awards..... 53
Schedule of Expenditures of State Awards..... 54
Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance..... 55
Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation..... 56
Reconciliation of Annual Financial and Budget Report (CCFS-311) with Fund Financial Statements..... 58
Proposition 30 Education Protection Act (EPA) Expenditure Report..... 59
Reconciliation of Governmental Funds to the Statement of Net Position..... 60
Note to Supplementary Information..... 62

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
Government Auditing Standards..... 63

Independent Auditors’ Report on Compliance for Each Major Federal Program and on Internal Control
Over Compliance Required by Uniform Guidance..... 65

Independent Auditors’ Report on State Compliance..... 67

FINDINGS AND RECOMMENDATIONS

Section 1 – Summary of Auditors’ Results..... 69
Section 2 – Financial Statement Findings..... 70
Section 3 – Federal Awards Findings..... 71
Section 4 – State Awards Findings..... 73
Status of Prior Year Findings and Questioned Costs..... 74



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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 2 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as the management’s discussion and analysis on pages 4 through 11, the Schedule of The District’s Total OPEB Liability and Related Ratios on page 49, the Schedule of the District’s Proportionate Share of the Net Pension Liability on page 50, and the Schedule of the District’s Pension Contributions on page 51 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 January 17, 2019, 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
January 17, 2019

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management’s Discussion and Analysis
June 30, 2018

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, 2018.

Introduction

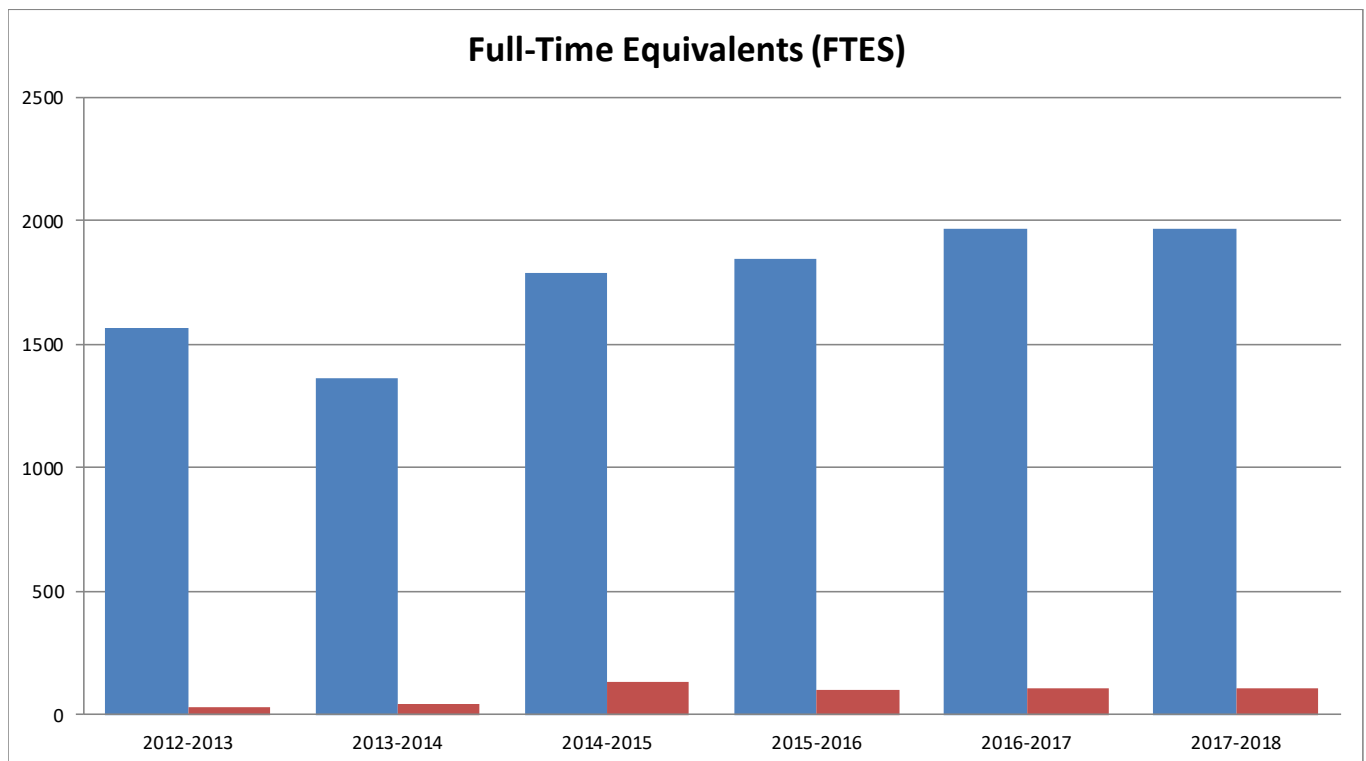
The following discussion and analysis provides an overview of the financial position and activities of the Palo Verde Community College District (the “District”) for the years ended June 30, 2018 and June 30, 2017. This discussion has been prepared by management and should be read in conjunction with 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 2017-2018, total full-time equivalent students decreased approximately 0.19% 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, 2018

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, 2018 and June 30, 2017, is summarized below:

	2018	2017	Net Change
ASSETS			
Current assets	\$ 15,402,236	\$ 13,862,695	\$ 1,539,541
Non-current assets	60,919,984	62,328,804	(1,408,820)
Total Assets	<u>76,322,220</u>	<u>76,191,499</u>	<u>130,721</u>
DEFERRED OUTFLOWS	5,874,079	3,656,669	2,217,410
LIABILITIES			
Current liabilities	2,375,283	2,527,454	(152,171)
Non-current liabilities	46,118,777	43,549,262	2,569,515
Total Liabilities	<u>48,494,060</u>	<u>46,076,716</u>	<u>2,417,344</u>
DEFERRED OUTFLOWS	<u>1,533,858</u>	<u>719,130</u>	<u>814,728</u>
Total Net Position	<u>\$ 32,168,381</u>	<u>\$ 33,052,322</u>	<u>\$ (883,941)</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

June 30, 2018

- 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, 2018, the District owned capital assets of \$60,628,472. 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 \$1,636,749.
- Noncurrent liabilities consist of compensated absences, other postemployment benefit obligation, net pension liability, General Obligation Bonds, and Certificates of Participation.
- Unrestricted net position totaled (\$4,724,627).

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, 2018

A summary of the Statement of Revenues, Expenses, and Changes in Net Position, for the years ended June 30, 2018 and June 30, 2017, is shown below.

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Revenues			
Operating revenues	\$ 6,204,558	\$ 5,705,993	\$ 498,565
Non-operating revenues	17,985,281	17,315,753	669,528
Other revenues	46,271	-	46,271
Total Revenues	<u>24,236,110</u>	<u>23,021,746</u>	<u>1,214,364</u>
Expenses			
Operating expenses	21,255,804	20,904,926	(350,878)
Non-operating expenses	1,232,058	1,282,222	50,164
Depreciation	1,791,680	1,818,689	27,009
Total Expenses	<u>24,279,542</u>	<u>24,005,837</u>	<u>(273,705)</u>
Excess (deficiency)	(43,432)	(984,091)	940,659
Net Position - Beginning	33,052,322	36,356,883	(3,304,561)
Adjust for restatement	(840,509)	(2,320,470)	1,479,961
Net Position - Ending	<u>\$ 32,168,381</u>	<u>\$ 33,052,322</u>	<u>\$ (883,941)</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 62% 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, 2018

Operating Expenses (by natural classification) – object:

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Salaries	\$ 10,089,644	\$ 11,034,761	\$ 945,117
Benefits	4,163,118	3,422,143	(740,975)
Payments to students	1,499,653	1,312,882	(186,771)
Supplies, materials, and other expen:	5,145,182	4,796,192	(348,990)
Utilities	358,207	338,948	(19,259)
Depreciation	<u>1,791,680</u>	<u>1,818,689</u>	<u>27,009</u>
Total Operating Expenses	<u>\$ 23,047,484</u>	<u>\$ 22,723,615</u>	<u>\$ (323,869)</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, 2018, was \$14,532,289.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management’s Discussion and Analysis
June 30, 2018

The Statement of Cash Flows, for the years ended June 30, 2018 and June 30, 2017, is summarized below:

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Net cash provided by (used in)			
Operating activities	\$ (14,532,289)	\$ (13,422,414)	\$ (1,109,875)
Non-capital financing activities	17,812,891	17,326,261	486,630
Capital financing activities	(2,153,880)	(2,642,867)	488,987
Investing activities	<u>188,791</u>	<u>76,918</u>	<u>111,873</u>
Net decrease in cash and cash equivalent	1,315,513	1,337,898	(22,385)
Cash balance, beginning of year	<u>13,407,834</u>	<u>12,069,936</u>	<u>1,337,898</u>
Cash balance, end of year	<u><u>\$ 14,723,347</u></u>	<u><u>\$ 13,407,834</u></u>	<u><u>\$ 1,315,513</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, 2018

Capital Assets

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

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Land and construction in progress	\$ 1,010,614	\$ 1,010,614	\$ -
Buildings and equipment	79,470,877	79,080,353	390,524
Accumulated depreciation	<u>(19,853,019)</u>	<u>(18,061,339)</u>	<u>(1,791,680)</u>
Total Capital Assets	<u>\$ 60,628,472</u>	<u>\$ 62,029,628</u>	<u>\$ (1,401,156)</u>

Debt

At June 30, 2018, the District had \$46,857,310 in long-term debt. A comparison of long-term debt is summarized below:

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Bonds payable	\$ 17,239,462	\$ 17,374,587	(135,125)
Certificates of participation	13,685,000	14,155,000	(470,000)
Loan payable - auto	9,941	15,303	(5,362)
Net pension liability	14,663,979	12,278,401	2,385,578
OPEB	970,647	984,670	(14,023)
Compensated absences	<u>288,281</u>	<u>283,719</u>	<u>4,562</u>
Total Long-term Liabilities	<u>\$ 46,857,310</u>	<u>\$ 45,091,680</u>	<u>\$ 1,765,630</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2018

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, 2018, was 15.531%.

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, 2018, was 14.43%.

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 2017-18 budget.

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, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 14,723,347
Accounts receivable	517,887
Prepaid expenses	161,002
Total current assets	<u>15,402,236</u>

Non-Current assets:

Other postemployment benefits other than

Notes receivable	291,512
Fixed assets, net	60,628,472
Total non-current assets	<u>60,919,984</u>

TOTAL ASSETS

76,322,220

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding	690,637
Deferred outflows of resources - pensions only	5,183,442
Total deferred outflows	<u>5,874,079</u>

LIABILITIES

Current liabilities:

Current liabilities	1,636,750
Current portion of long-term debt	738,533

Total current liabilities 2,375,283

Non-Current Liabilities

46,118,777

TOTAL LIABILITIES

48,494,060

DEFERRED INLOWS OF RESOURCES

Deferred inflows of resources - pensions only	<u>1,533,858</u>
---	------------------

NET POSITION

Invested in capital assets	31,558,305
Restricted for:	
Capital projects	1,977,071
Debt service	1,394,005
Other activities	1,963,627
Unrestricted	<u>(4,724,627)</u>

TOTAL NET POSITION

\$ 32,168,381

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICTStatement of Revenues, Expenses and Changes in Net Position-Primary Government
For the Fiscal Year Ended June 30, 2018**OPERATING REVENUES**

Tuition and fees	\$ 2,292,961
Less: Scholarship discounts and allowances	(1,603,940)
Net Tuition and Fees	<u>689,021</u>
Grants and contracts	
Federal	1,209,566
State	3,790,179
Local	515,792
Total Operating Revenues	<u>6,204,558</u>

OPERATING EXPENSES

Salaries	10,089,644
Benefits	4,163,118
Payments to students	1,499,653
Supplies, materials, and other expenses	5,145,182
Utilities	358,207
Depreciation	1,791,680
Total Operating Expenses	<u>23,047,484</u>

OPERATING INCOME/(LOSS) (16,842,926)**NON-OPERATING REVENUES/(EXPENSES)**

State apportionments, non-capital	14,685,201
Local property taxes	2,621,755
State taxes and other revenues	504,737
Investment income, net	173,588
Interest expense	(1,232,058)
Total non-operating revenues (expenses)	<u>16,753,223</u>

Income Before Other Revenues, Expenses, Gains or Losses (89,703)**OTHER REVENUES, EXPENSES, GAINS, OR LOSSES**

Grants and contracts, capital	46,271
Total Other Revenues, Expenses, Gains or Losses	<u>46,271</u>

CHANGE IN NET POSITION (43,432)**NET POSITION**

Net Position - Beginning	33,052,322
Prior period adjustment	(840,509)
Net Position - Beginning, as restated	<u>32,211,813</u>

Net Position - Ending \$ 32,168,381

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, 2018

Cash Flows from Operating Activities

Tuition and fees	\$ 651,847
Federal grants and contracts	1,207,094
State grants and contracts	3,568,342
Local grants and contracts	510,042
Payments to suppliers	(5,307,389)
Payments for utilities	(358,207)
Payments to/on-behalf of employees	(13,304,365)
Payments to/on-behalf of students	<u>(1,499,653)</u>

Net cash provided by (used in) operating activities (14,532,289)

Cash Flows from Non-capital Financing Activities

State apportionments and receipts	14,685,201
Property taxes	2,622,953
State taxes and other revenues	<u>504,737</u>

Net cash provided by (used in) by non-capital financing activities 17,812,891

Cash Flows from Capital Financing Activities

Local revenue, capital projects	46,271
Principal paid on capital debt	(701,909)
Interest paid on capital debt	(1,107,718)
Purchases of capital assets	<u>(390,524)</u>

Net cash provided by (used in) capital financing activities (2,153,880)

Cash Flows from Investing Activities

Investment income	181,127
Collection from notes receivable	<u>7,664</u>

Net cash provided by (used in) investing activities 188,791

NET INCREASE IN CASH AND CASH EQUIVALENTS 1,315,513

CASH AND CASH EQUIVALENTS

Beginning of year	<u>13,407,834</u>
End of year	<u><u>\$ 14,723,347</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, 2018

Reconciliation of operating loss to cash used in operating activities

Operating loss	\$ (16,842,911)
Depreciation and amortization	1,791,680
Pension expense	955,886
(Increase) decrease in accounts receivable	(237,394)
Increase (decrease) in accounts payable	(190,089)
Increase (decrease) in other liabilities	<u>(9,461)</u>
Net cash used in operating activities	<u><u>\$ (14,532,289)</u></u>

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statements of Fiduciary Net Position

June 30, 2018

	<u>ASB Trust Fund</u>	<u>Scholarship and Loan Trust Fund</u>
ASSETS		
Cash and cash equivalents	\$ 2,266	60,822
TOTAL ASSETS	<u>\$ 2,266</u>	<u>\$ 60,822</u>
LIABILITIES		
Due to student groups	\$ 2,266	\$ 60,822
LIABILITIES AND NET POSITION	<u>\$ 2,266</u>	<u>\$ 60,822</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, 2018

	<u>ASB Trust Fund</u>	<u>Scholarship and Loan Trust Fund</u>
ADDITIONS		
Other local revenues	\$ 4,065	65,433
Total Additions	<u>4,065</u>	<u>65,433</u>
DEDUCTIONS		
Supplies and materials and other operating expenses and services	<u>5,895</u>	<u>66,230</u>
CHANGE IN NET POSITION	<u>(1,830)</u>	<u>(797)</u>
Net Position - Beginning	<u>4,096</u>	<u>61,619</u>
Net Position - Ending	<u>\$ 2,266</u>	<u>\$ 60,822</u>

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018, 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:

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

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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 qualifies 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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018.

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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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.

Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measures by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. 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 has implemented provisions of this Statement as of June 30, 2018.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January, 2017 the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were 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, and 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 requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Payments", which is intended to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement 89, “Accounting for Interest Cost Incurred before the End of a Construction Period”, 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 requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

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, 2018, consist of the following:

	<u>District</u>	<u>Fiduciary</u>
Cash in County Treasury	\$ 14,709,588	\$ -
Cash on hand and in bank	8,759	63,088
Cash in revolving fund	<u>5,000</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 14,723,347</u>	<u>\$ 63,088</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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018, as provided by the pool sponsor, was \$14,626,983, with an average maturity of 1.17 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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018, consist of the following and are considered collectible in full:

	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Total</u>
General fund	\$ 3,142	\$ 266,741	\$ 235,569	\$ 505,452
Child development fund	6,868	382	64	7,314
Self insurance fund	-	-	5,121	5,121
	<u>\$ 10,010</u>	<u>\$ 267,123</u>	<u>\$ 240,754</u>	<u>\$ 517,887</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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 6 – CAPITAL ASSETS

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

Business-Type Activities	<u>Balance July 01, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
Historical Cost				
Building	\$ 74,667,137	\$ -	\$ -	\$ 74,667,137
Construction in progress	84,477	-	-	84,477
Equipment	2,911,603	390,524	-	3,302,127
Land	926,137	-	-	926,137
Site improvements	1,286,659	-	-	1,286,659
Vehicles	214,954	-	-	214,954
Total historical cost	<u>80,090,967</u>	<u>390,524</u>	<u>-</u>	<u>80,481,491</u>
Accumulated depreciation				
Building	14,909,113	1,609,026	-	16,518,139
Equipment	2,328,410	135,123	-	2,463,533
Site improvements	695,296	36,113	-	731,409
Vehicles	128,520	11,418	-	139,938
Total accumulated depreciation	<u>18,061,339</u>	<u>1,791,680</u>	<u>-</u>	<u>19,853,019</u>
CAPITAL ASSETS, NET	<u>\$62,029,628</u>	<u>\$(1,401,156)</u>	<u>\$ -</u>	<u>\$60,628,472</u>

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable, at June 30, 2018, consisted of the following:

	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Interest	\$ 277,023	\$ -	\$ 277,023
Payroll	21,160	-	21,160
Construction	174,511	-	174,511
Vendor payable	<u>1,164,056</u>	<u>-</u>	<u>1,164,056</u>
	<u>\$ 1,636,750</u>	<u>\$ -</u>	<u>\$ 1,636,750</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018, are summarized as follows:

	Balance July 01, 2017	Additions	Deductions	Due in One Year	Long-term Balance
Business-Type Activities					
Other postemployment benefit obligation (OPEB)	\$ 984,670	\$ -	\$ 14,023	\$ -	\$ 970,647
Compensated absences	283,719	4,562	-	-	288,281
Net pension liability	12,278,401	2,385,578	-	-	14,663,979
Auto loan	15,303	-	5,362	5,591	4,350
Certificates of participation	14,155,000	-	470,000	500,000	13,185,000
General obligation bonds payable	16,118,115	-	226,547	232,942	15,658,626
Premiums and discounts	476,942	-	23,803	-	453,139
Accretion	779,530	115,225	-	-	894,755
	<u>\$ 45,091,680</u>	<u>\$ 2,505,365</u>	<u>\$ 739,735</u>	<u>\$ 738,533</u>	<u>\$ 46,118,777</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, 2018

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, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
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	590,000	439,788	1,029,788
2024-2028	3,310,000	1,845,290	5,155,290
2029-2033	3,920,000	1,225,976	5,145,976
2034-2038	3,735,000	380,800	4,115,800
	<u>\$ 13,685,000</u>	<u>\$ 5,868,406</u>	<u>\$ 19,553,406</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Accreted Interest	Total
2019	232,942	591,745	52,058	\$ 876,745
2020	300,000	532,113	-	832,113
2021	390,000	521,763	-	911,763
2022	430,000	509,463	-	939,463
2023	475,000	2,207,684	-	2,682,684
2024-2028	2,212,109	3,127,791	987,891	6,327,791
2029-2033	2,771,517	3,113,424	1,458,483	7,343,424
2034-2038	2,820,000	1,025,000	-	3,845,000
2039-2043	4,110,000	192,700	-	4,302,700
2043-2045	2,150,000	87,600	-	2,237,600
Total	\$ 15,891,568	\$ 11,909,283	\$ 2,498,432	\$ 30,299,283

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION

Plan Description

The District offers post-employment medical insurance to its eligible retirees. Integrated medical/prescription drug coverage is provided through CalPERS under the Public Employees Medical and Hospital Care Act (PEMHCA). Eligible retirees can choose from the PERSCare and PERChoice PPOs.

The District’s governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses.

The District pays the full cost for the employee and/or dependent coverage under the above plans for eligible retirees.

The District offers the same medical plans to its retirees as to its active employees, with the general exception that once a retiree become eligible for Medicare (that is, reaches age 65), he or she must join a Medicare Supplement PPO, with Medicare becoming the primary payor. The District does not contribute to dental and vision insurance for retirees.

Employees become eligible to receive District-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service or upon disability before age 50. Benefits are paid for the lifetime of the retiree. Employees are eligible for full retirement benefits at age 55. Employees hired on or after January 1, 2013, and who are not defined as “classic employees” by CalPERS, are eligible for full retirement benefits at age 62.

Employees covered by benefit terms

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB plan:

Active employees	48
Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to; but not yet receiving benefits	-
Total	<u>54</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION

Total OPEB Liability

The District’s total OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date, based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Discount rate	3.8%
Healthcare trend rate	4.0%
Salary increases	2.75% per annum, in aggregate
Investment rate of return	3.8%
Pre-retirement mortality rate	
Certificated	2009 CalSTRS Mortality
Classified	2014 CalPERS Active Mortality for Miscellaneous Employees
Post-retirement mortality rate	
Certificated	2009 CalSTRS Retirement Rates
Classified	Hired Before 1/1/2013: 2009 CalPERS Retirement Rates for School Employees Hired After 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees 2% @60 adjusted to minimum retirement age of 52

Discount Rate

The discount rate used to measure the total OPEB liability was 3.8% which was based on the Bond Buyer 20-bond General Obligation Index.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the OPEB plan are as follows:

Total OPEB Liability	
Service cost	47,581
Interest (on the total OPEB liability)	36,434
Benefit payments, including refunds of employee contributions	(98,038)
Net change in Total OPEB Liability	(14,023)
Total OPEB Liability-beginning	984,670
Total OPEB Liability-ending	<u>\$ 970,647</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION (continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Total OPEB liability, as well as what the Total OPEB 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 discount rate:

	1% Decrease <u>(3.0%)</u>	Current Trend <u>(4.0%)</u>	1% Increase <u>(5.0%)</u>
Net OPEB Liability (asset)	\$ 951,620	\$ 970,647	\$ 986,915

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of negative \$14,023. At June 30, 2018, the District's did not have any deferred outflows or resources and deferred inflows of resources related to OPEB.

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 Pension Liability	Deferred Outflows Related to Pensions	Deferred Inflows Related to Pensions	Pension Expense
CalSTRS	\$ 8,774,599	\$ 2,863,126	\$ (1,114,607)	\$ 719,716
CalPERS	5,889,380	2,320,316	(419,251)	1,707,306
	<u>\$ 14,663,979</u>	<u>\$ 5,183,442</u>	<u>\$ (1,533,858)</u>	<u>\$ 2,427,022</u>

CalSTRS

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalSTRS (continued)

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

This STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and non-employer contributing entity to the STRP.

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

CalSTRS’ provisions and benefits in effect at June 30, 2018, are summarized as follows:

Employer Rate Plans

Plan name	Classic	PEPRA
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	2012	January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits, as of % of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rates	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$805,908.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalSTRS (continued)

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

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

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

The District's proportionate share percentage of the net pension liability was as follows:

	Proportionate Share Percentage of Net Pension Liability
Proportion at measurement date – June 30, 2016	0.009920%
Proportion at measurement date – June 30, 2017	0.009488%
Change – increase (decrease)	<u>(0.000432)%</u>

For the year ended June 30, 2018, the Palo Verde Community College District recognized pension expense of \$719,716. At June 30, 2018, the Palo Verde Community College 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
Differences between Expected and Actual Experience	\$32,449	(\$52,342)
Changes of Assumptions	1,625,574	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(859,513)
Adjustment due to Differences in Proportions	196,339	(202,752)
Differences between Actual and Required Contributions	202,856	0
Contributions after Measurement Date	805,908	0
Total	<u>\$2,863,126</u>	<u>(\$1,114,607)</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalSTRS (continued)

Amounts other than contributions subsequent to the measurement date reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Date	Deferred Outflows/(Inflows) of Resources
June 30:	
2018	\$151,719
2019	151,982
2020	25,155
2021	61,052
2022	276,356
Thereafter	276,347
Total	942,611

Actuarial Assumptions

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.10%
Inflation	2.75%
Payroll Growth	3.50%
Projected Salary Increase ⁽¹⁾	Varies By Age & Length of Service
Investment Rate of Return ⁽²⁾	7.00%
Mortality Rate Table ⁽³⁾	Custom

(1) Depending on age, service and type of employment

(2) Net of Pension Plan Investment and Administrative Expenses; includes Inflation

(3) For active employees, mortality is based on the RP-2014 White Collar Employee mortality table set back 2 years. For retirees, mortality is based on the 2016 CalSTRS mortality table for retirees. For disabled participants, mortality is based on the RP-2014 Disabled Retiree mortality table set back 2 years. All tables use 110% of the MP-2016 Ultimate Projection Scale. The combined base tables and projection scale specified contain a margin for expected future mortality improvement.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalSTRS (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The 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 log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long Term Expected Real Rate of Return
Global Equity	47.0%	6.3%
Fixed Income	12.0	0.3
Real Estate	13.0	5.2
Private Equity	13.0	9.3
Absolute Return/Risk Mitigating Strategies	9.0	2.9
Inflation Sensitive	4.0	3.8
Cash/Liquidity	2.0	(1.0)

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalSTRS (continued)

Sensitivity of the Palo Verde Community College District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Palo Verde Community College District’s proportionate share of the net pension liability of the each risk pool as of the measurement date, calculated using the discount rate, as well as what the Palo Verde Community College 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:

	Discount Rate -1% (6.10%)	Current Discount Rate (7.10%)	Discount Rate +1% (8.10%)
Palo Verde Community College District’s proportionate share of the School Risk Pool’s net pension liability	\$12,884,037	\$8,774,599	\$5,439,684

CalPERS

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees’ Retirement System (CalPERS). The Plan’s benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

The Plan consists of a school pool (referred to as “risk pool”), which is comprised of individual employer rate plans, including those of the Palo Verde Community College District.

Benefits Provided

The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRAs members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member’s beneficiary if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law. The Plans’ provisions and benefits in effect at June 30, 2018, are summarized as follows:

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalPERS (continued)

Employer Rate Plans in the School Risk Pool

Plan name	Classic	PEPRA
	On or before	On or after January
Hire Date	December 31, 2012	1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits, as of % of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rates	7.00%	6.5%
Required employer contribution rates	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the employer rate plans are determined through the CalPERS’ annual actuarial valuation process. Each employer rate plan’s actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan’s allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued liability. The Palo Verde Community College District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Palo Verde Community College District’s contributions to the risk pools in the Plan for the year ended June 30, 2018, were as follows:

	Contributions
Total School Risk Pool contributions	\$534,150

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

As of June 30, 2018, Palo Verde Community College District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	Proportionate Share of Net Pension Liability
Total net pension liability	\$5,889,380

* The proportionate share of the total NPL to each of the enterprise and internal service funds is not being allocated because it is deemed to have an immaterial effect on the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalPERS (continued)

The Palo Verde Community College District's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

The Palo Verde Community College District's proportionate share of the net pension liability as of June 30, 2016, the valuation date, was calculated as follows:

In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to either the Miscellaneous or Safety risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans and each risk pool as of the valuation date, June 30, 2016. Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The Palo Verde Community College District's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the Palo Verde Community College District's net pension liability for each of its employer rate plans within each risk pool by the net pension liability of the respective risk pool as of the valuation date.

The Palo Verde Community College District's proportionate share of the net pension liability as of June 30, 2017, the measurement date, was calculated as follows:

Each risk pool's total pension liability was computed at the measurement date, June 30, 2017, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for each risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for each risk pool at June 30, 2017, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

The individual employer risk pool's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2017, was calculated by applying Palo Verde Community College District's proportionate share percentage as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2017, to obtain the total pension liability and fiduciary net position as of June 30, 2017. The fiduciary net position was then subtracted from total pension liability to obtain the net pension liability as of the measurement date.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalPERS (continued)

The Palo Verde Community College District’s proportionate share percentage of the net pension liability for each risk pool as of June 30, 2016, and June 30, 2017, was as follows:

	School Risk Pool
Proportion at measurement date – June 30, 2016	0.021544%
Proportion at measurement date – June 30, 2017	0.024670%
Change – increase (decrease)	<u>(0.003126)%</u>

For the year ended June 30, 2018, the Palo Verde Community College District recognized pension expense of \$1,439,296. At June 30, 2018, the Palo Verde Community College 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
Differences between Expected and Actual Experience	\$239,654	\$-
Changes of Assumptions	852,871	(75,325)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	116,436	-
Adjustment due to Differences in Proportions	577,205	-
Differences between Actual and Required Contributions	-	(343,926)
Contributions after Measurement Date	534,150	-
Total	<u>\$2,320,316</u>	<u>(\$419,251)</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalPERS (continued)

Amounts other than contributions subsequent to the measurement date reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Date	Deferred Outflows/(Inflows) of Resources
June 30:	
2018	\$432,817
2019	627,043
2020	418,618
2021	(111,563)
2022	0
Thereafter	0
Total	1,366,915

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	School Risk Pool
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase ⁽¹⁾	Varies By Age & Length of Service
Investment Rate of Return ⁽²⁾	7.50%
Mortality Rate Table ⁽³⁾	Derived using CalPERS' Membership Data for all Funds

(1) Depending on age, service and type of employment

(2) Net of Pension Plan Investment and Administrative Expenses; includes Inflation

(3) The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalPERS (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2017 based on June 30, 2016 Valuations*, that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.00% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

In the December 2016 and April 2017 meetings, the Board voted to lower the funding discount rates used for the PERF. In making its decision, the Board reviewed recommendations from CalPERS team members, external pension and investment consultants, and input from employer and employee stakeholder groups. A lowered funding discount rate for the PERF will be phased in over a three-year period beginning July 1, 2018 for public agencies and school districts.

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

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

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

CalPERS (continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New		
	Strategic Allocation	Real Return Years 1-10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	47.0%	4.9%	5.38%
Global Fixed Income	19.0	0.8	2.27
Inflation Sensitive	6.0	0.6	1.39
Private Equity	12.0	6.6	6.63
Real Estate	11.0	2.8	5.21
Infrastructure and Forestland	3.0	3.9	5.36
Liquidity	2.0	(0.4)	(0.9)

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

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

Sensitivity of the Palo Verde Community College District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Palo Verde Community College District’s proportionate share of the net pension liability of the each risk pool as of the measurement date, calculated using the discount rate, as well as what the Palo Verde Community College 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:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Palo Verde Community College District’s proportionate share of the School Risk Pool’s net pension liability	\$8,665,165	\$5,889,380	\$3,586,634

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 \$422,132 (9.328% 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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018.

	Salaries and Benefits	Supplies, Materials & Other Expenses & Services	Utilities	Payments to Students	Depreciation	Total
Admissions and records	\$ 423,818	\$ 23,479		\$ -		\$ 447,297
Ancillary services		27,344				27,344
Auxilliary operations	134,465	178,367				312,832
Community services	117,730	22,992				140,722
General institutional support services	1,354,158	876,139				2,230,297
Instructional activities	5,936,861	2,769,301	358,207	-		9,064,369
Instructional administration	1,029,332	458,735				1,488,067
Instructional support services	262,102	75,799				337,901
Physical property and acquisitions		3,348				3,348
Planning, policy making, coordination, general support	615,950	254,980				870,930
Plant operations and maintenance	554,232	909,033				1,463,265
Student services-counseling and guidance	1,155,421	353,255				1,508,676
Students services-other	1,344,024	417,079				1,761,103
Transfers and student payments				1,499,653	-	1,499,653
Depreciation					1,791,680	1,791,680
	<u>\$ 12,928,093</u>	<u>\$ 6,369,851</u>	<u>\$ 358,207</u>	<u>\$ 1,499,653</u>	<u>\$ 1,791,680</u>	<u>\$ 22,947,484</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

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 may be involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

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 (CCRCSEIPE), 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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 16 – RESTATEMENT OF PRIOR YEAR NET POSITION

The Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position for governmental activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

Net Position as previously reported at June 30, 2017		\$ 33,052,322
GASB No. 75 Implementation		
Total OPEB obligation measured under previous standards	144,161	
Total OPEB obligation at June 30, 2017	<u>(984,670)</u>	
		<u>(840,509)</u>
Net Position as restated, July 1, 2017		<u><u>\$ 32,211,813</u></u>

NOTE 17 - SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 17, 2019, which is the date these financial statements were issued. All subsequent events requiring recognition, as of June 30, 2018, have been incorporated into these financial statements herein.

REQUIRED SUPPLEMENTARY INFORMATION

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Changes in the District’s Total OPEB Liability, Related Ratios and Notes
For the Fiscal Year Ended June 30, 2018

	Plan Year Ended June 30, 2018
Total OPEB Liability	
Service cost	47,581
Interest (on the total OPEB liability)	36,434
Benefit payments, including refunds of employee contributions	(98,038)
Net change in Total OPEB Liability	(14,023)
Total OPEB Liability-beginning	984,670
Total OPEB Liability-ending	\$ 970,647

Notes to Schedule of Changes in the District’s Total OPEB Liability and Related Ratios

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

There were no significant changes in benefit terms.

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 Four Fiscal Years Ended June 30, 2018*

	Measurement Date June 30,							
	2014		2015		2016		2017	
	PERS	STRS	PERS	STRS	PERS	STRS	PERS	STRS
District's proportion of the net pension liability (asset)	0.0199%	0.005400%	0.0218%	0.010200%	0.0215%	0.009920%	0.0247%	0.009488%
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	\$ 5,889,380	\$ 8,774,599
District's covered-employee payroll	\$ 2,419,879	\$ 5,364,833	\$ 2,608,897	\$ 4,928,639	\$ 3,274,568	\$ 5,364,833	\$ 3,486,771	\$ 5,584,962
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%	168.91%	157.11%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	70.04%	79.43%	74.02%	73.90%	70.04%	71.87%	69.46%

*Fiscal year 2014 was the 1st year of implementation, therefore only four 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 Four Fiscal Years Ended June 30, 2018*

	2014-15		2015-16		2016-17		2017-18	
	PERS	STRS	PERS	STRS	PERS	STRS	PERS	STRS
Contractually required contribution	\$ 284,844	\$ 418,101	\$ 309,076	\$ 528,843	\$ 454,772	\$ 674,896	\$ 534,150	\$ 805,908
Contributions in relation to the contractually required contribution	284,844	418,101	309,076	528,843	454,772	674,896	534,150	805,908
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$2,419,879	\$ 4,708,345	\$ 2,608,897	\$ 4,928,639	\$ 3,274,568	\$ 5,364,833	\$ 3,486,771	\$ 5,584,962
Contributions as a percentage of covered-employee payroll	11.771%	8.880%	11.847%	10.730%	13.888%	12.580%	15.319%	14.430%

*Fiscal year 2014-15 was the 1st year of implementation, therefore only four 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, 2018

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, 2018, were as follows:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Suzanne P. Woods	President	2018
Debra Mitchell	Vice-President	2020
Brad Arneson	Clerk	2018
Stella Camargo-Styers	Trustee	2020
Edmundo R. Gonzales	Trustee	2020
Jerry M. Lewis	Trustee	2018
George W. Thomas	Trustee	2018
Jasmine Gima	Student Trustee	2018

DISTRICT ADMINISTRATION

Donald G. Wallace, Ph.D.	Superintendent/President
Maureen Davis	Interim Vice President Administrative Services
Scott Bauer	Interim 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, 2018

<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		\$ 989,796
Federal Pell Administrative	84.063		2,671
Federal Supplement Education Opportunity (FSEOG)	84.007		32,988
Federal Work Study Program (FWS)	84.033		30,867
Subtotal Student Financial Assistance Cluster			<u>1,056,322</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>111,697</u>
Total U.S. Department of Education			<u>1,168,019</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Temporary Assistance to Needy Families (TANF)	93.558		<u>31,061</u>
Total U.S. Department of Health and Human Services			<u>31,061</u>
U.S. Department of Agriculture			
Passed through California Department of Education			
Child Care Food Program	10.558	*	<u>30,804</u>
Total U.S. Department of Agriculture			<u>30,804</u>
Total Federal Expenditures			<u><u>\$ 1,229,884</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, 2018

Program Name	Program Revenues			Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income		
Adult Basic Education Grant (AB86)	\$ 773,016	\$ -	\$ -	\$ 773,016	\$ 773,016
Basic Skills & Initiative	157,153	-	46,487	110,666	110,666
Child Development Center	397,247	-	4,172	393,075	393,075
California Work Opportunity & Responsibility to Kids	134,555	-	3,355	131,200	131,200
Cooperative Agencies & Resources for Education	2,000	-	235	1,765	1,765
Disabled Students Programs & Services	172,261	-	-	172,261	172,261
Equal Employment Opportunity	48,260	-	2,523	45,737	45,737
Extended Opportunity Programs & Services	505,952	-	720	505,232	505,232
Instructional Equip/Scheduled Maintenance	127,743	-	37,418	90,325	90,325
Student Success-Credit	659,505	-	-	659,505	659,505
Student Success-Non Credit	44,908	-	-	44,908	44,908
Student Equity	250,000	-	-	250,000	250,000
Strengthening Career Technical Education	39,443	-	-	39,443	39,443
Student Financial Aid Administration	160,884	-	-	160,884	160,884
Lottery	189,314	-	100,805	88,509	88,509
Full Time Student Success	19,000	-	1,395	17,605	17,605
Strong Workforce Program	391,118	-	354,004	37,114	37,114
	<u>\$ 4,072,359</u>	<u>\$ -</u>	<u>\$ 551,114</u>	<u>\$ 3,521,245</u>	<u>\$ 3,521,245</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, 2018

	<u>Reported Data</u>
A. Summer Intersession (Summer 2017 only)	
1. Noncredit	32.56
2. Credit	276.90
B. Summer Intersession (Summer 2018 - Prior to July 1, 2018)	
1. Noncredit	-
2. Credit	-
C. Primary Terms (Exclusive of Summer Intersession)	
1. Census Procedure Courses	
(a) Weekly Census Contact Hours	338.64
(b) Daily Census Contact Hours	19.69
2. Actual Hours of Attendance	
(a) Noncredit	73.86
(b) Credit	481.69
3. Alternative Attendance Accounting Procedure	
(a) Weekly Census Contact Hours	847.27
(b) Daily Census Contact Hours	-
(c) Noncredit Independent Study/Distance Education Courses	-
Total FTES	<u>2,070.61</u>
Total Credit FTES	1,964.19
Total Noncredit FTES	<u>106.42</u>
Total FTES	<u>2,070.61</u>
Supplemental Information (subset of above information)	
In-Service Training Courses	540.00
Basic Skills Courses & Immigrant Education	
1. Noncredit	89.83
2. Credit	148.59

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, 2018

	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
Instructional Salaries							
Contract or Regular	1100	\$ 3,402,903		\$ 3,402,903	\$ 3,402,903		\$ 3,402,903
Other	1300	799,585		799,585	799,585		799,585
Total Instructional Salaries		4,202,488		4,202,488	4,202,488		4,202,488
Non-Instructional Salaries							
Contract or Regular	1200				897,311		897,311
Other	1400				42,120		42,120
Total Non-Instructional Salaries					939,431		939,431
Total Academic Salaries		4,202,488		4,202,488	5,141,919		5,141,919
Classified Salaries							
Non-Instructional Salaries							
Regular Status	2100				2,611,044		2,611,044
Other	2300				67,357		67,357
Total Non-Instructional Salaries					2,678,401		2,678,401
Instructional Aides							
Regular Status	2200	-		-	-		-
Other	2400	-		-	-		-
Total Instructional Aides		-		-	-		-
Total Classified Salaries		-		-	2,678,401		2,678,401
Employee Benefits	3000	1,262,977		1,262,977	2,799,647		2,799,647
Supplies and Materials	4000				128,136		128,136
Other Operating Expenses	5000	2,018,815		2,018,815	4,029,454		4,029,454
Equipment Replacement	6420						
Total Expenditures Prior to Exclusions		7,484,280		7,484,280	14,777,557		14,777,557

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, 2018

	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
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	-		-	-		-
Student Health Services Above Amount Collected	6441						
Student Transportation	6491				-		-
Non-Instructional Staff - Retirees' Benefits and Retirement Incentives	6740				-		-
Objects to Exclude							
Rents and Leases	5060				24,919		24,919
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						
Total Supplies and Materials							
Other Operating Expenses and Services	5000				303,216		303,216
Capital Outlay	6000						
Library Books	6300						
Equipment	6400						
Equipment - Additional	6410						
Equipment - Replacement	6420						
Total Equipment							
Total Capital Outlay							
Other Outgo	7000						
Total Exclusions		-		-	328,135		328,135
Total for ECS 84362, 50% Law		\$ 7,484,280		\$ 7,484,280	\$ 14,449,422		\$ 14,449,422
Percent of CEE (Instructional Salary Cost / Total CEE)		51.80%		51.80%	100%		100%
50% of Current Expense of Education					\$ 7,224,710		\$ 7,224,711

See the accompanying note to supplementary information

PALO VERDE COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements
For the Fiscal Year Ended June 30, 2018

	General Fund	Child Development Fund	Capital Outlay Fund	Rev Bond Construction Fund
ND BALANCE				
June 30, 2018, Annual Financial & Budget Report (Form CCFS-311) Fund Balances	\$ 6,813,171	\$ 10,475	\$ 1,977,072	\$ 3,096,252
Adjustments and reclassifications increasing/ (decreasing) fund balance:				
Cash with fiscal agent	-	-	-	(1,518,587)
Investments	137,564	3,142	-	-
Accounts payable	6,505			
Net adjustments & reclassifications	144,069	3,142	-	(1,518,587)
Audited financial statements fund balance	<u>\$ 6,957,240</u>	<u>\$ 13,617</u>	<u>\$ 1,977,072</u>	<u>\$ 1,577,665</u>

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, 2018

Activity Classification	Object Code				Unrestricted
EPA Proceeds:	8630				
					\$ 2,356,010
Activity Classification	Activity Code	Salaries and Benefits	Operating Expenses	Capital Outlay	
		(Obj 1000-3000)	(Obj 4000-5000)	(Obj 6000)	Total
Instructional Activities	0100-5900	\$ 2,356,010	-	-	2,356,010
Total Expenditures for EPA		\$ 2,356,010	-	-	2,356,010
Revenues Less Expenditures					\$ -

See the accompanying note to supplementary information

PALO VERDE COMMUNITY COLLEGE DISTRICT

Reconciliation of Governmental Funds to the Statement of Net Position

June 30, 2018

Total Fund Balance and Retained Earnings:

General Funds	\$ 6,957,240	
Special Revenue Funds	13,617	
Capital Outlay Projects	3,554,736	
Debt Service Funds	1,394,004	
Proprietary Funds	294,347	
Internal Service Funds	1,658,805	
Fiduciary Funds	<u>71,847</u>	

Total Fund Balances and Retained Earnings - All District Funds 13,944,596
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	80,481,491	
Accumulated depreciation is	<u>(19,853,019)</u>	
Net Capital Assets		60,628,472

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	5,183,442	
Deferred inflows of resources relating to pensions	<u>(1,533,858)</u>	3,649,584

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.

690,637

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

291,512

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

(63,088)

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.

161,002

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.

(277,024)

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, 2018

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	(16,786,323)	
Bond premiums	(453,139)	
Certificates of participation	(13,685,000)	
Auto loan	(9,941)	
Net pension liability	(14,663,979)	
Compensated absences (vacations)	(288,281)	
Other postemployment benefits (OPEB)	(970,647)	
	<hr/>	
Total Long-Term Obligations		(46,857,310)
Total Net Position - Governmental Activities		<u><u>\$ 32,168,381</u></u>

See the accompanying note to supplementary information

PALO VERDE COMMUNITY COLLEGE DISTRICT

Note to Supplementary Information

June 30, 2018

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* (Uniform Guidance). 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 allowed under Uniform Guidance.

The District does not provide Federal awards to subrecipients during the year ended June 30, 2018.

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

**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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 17, 2019.

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. However, material weaknesses may exist that have not been identified.

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*.

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
January 17, 2019



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, 2018. 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.

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, 2018.

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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018.001, that we consider to be significant deficiencies.

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

Purpose of This Report

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

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
January 17, 2019

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 2017-18 Contracted District Audit Manual (CDAM) for the year ended June 30, 2018 and issued our report thereon January 17, 2019.

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 2017-18 Contracted District Audit Manual.

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 2017-18 *Contracted District Audit Manual*. 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, 2018.

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 444	Apprenticeship Related and Supplemental Instruction (RSI) Funds
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
January 17, 2019

FINDINGS AND RECOMMENDATIONS

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2018

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>None Reported</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>Yes</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>None Reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unmodified</u>

SECTION 2 – FINANCIAL STATEMENT FINDINGS

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

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2018

SECTION 3 – FEDERAL AWARDS FINDINGS AND RESPONSES

FINDING 2018.001

Schedule of Expenditures of Federal Awards

Award Year – July 1, 2017 to June 30, 2018

Type of Finding- Significant Deficiency- Preparation of the Schedule of Expenditures of Federal Awards

Criteria

The District did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). There was no evidence of a control, such as an oversight or review to ensure federal award information submitted was correct.

Condition

The District submitted the SEFA to the Auditor with errors.

Questioned Costs

No questioned costs

Context

Federal Uniform Guidance states in part: “The auditee shall: (1) identify, in its accounts, all federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. (b) Maintain internal control over Federal programs that provides reasonable assurance...”

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management’s objectives, and compliance with laws and regulations.

Effect

The lack of knowledge in the District Business office in regards to Federal Programs, and no internal control policies to prevent or detect and correct errors, caused errors on the District prepared SEFA.

Cause

The District Business office is responsible for preparing the SEFA, based upon the grant information obtained from the financial accounting records and other information provide in the grant documents. It was determined that grant award letters, grant applications, grant budgets, financial reports and other grant documents were not readily available in the business office.

Recommendation

We recommend that the District establish policies and procedure to ensure that the federal funds are identified and reported accurately on the SEFA in accordance with Federal Uniform Guidance requirements. We also recommend that individuals responsible for administering federal programs receive training in proper grant administration.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2018

SECTION 3 – FEDERAL AWARD FINDINGS AND RESPONSES (Continued)

Corrective Action Plan

In response to the finding on the Schedule of Expenditures of Federal Awards (SEFA) for the award year July 1, 2017 to June 30, 2018: Our corrective action plan consists of revising our Internal Control Policies and Procedures to improve the preparation of the SEFA to ensure compliance with Federal regulations. This corrective action plan was implemented January 2019. The contact individual responsible for this corrective action plan is Maureen Davis, Interim VP of Administrative Services.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2018

SECTION 4 – STATE AWARDS FINDINGS

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

FINANCIAL STATEMENT FINDINGS

2017-001 ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) (Significant deficiency)

Recommendation This 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.

Current Status Implemented

FEDERAL AWARDS FINDINGS

There were no prior year findings or questioned costs.

STATE AWARDS FINDINGS

There were no prior year findings or questions costs.