

**SAN LUIS OBISPO COUNTY
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
San Luis Obispo County Community College District
San Luis Obispo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of San Luis Obispo County Community College District (the District) as of and for the year ended June 30, 2014, 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2014, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 4 through 13 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.

Vannest, Tinn, Day & Co., LLP

Rancho Cucamonga, California
December 19, 2014



SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

Thousands of Success Stories

INTRODUCTION

This introduction to the District-wide financial statements provides background information regarding the financial position and activities of the San Luis Obispo County Community College District - Cuesta College (the District) for the years ended June 30, 2014 and 2013. We encourage readers to consider the information presented in this Management's Discussion and Analysis in conjunction with the financial statements and accompanying notes to the financial statements.

Overview of the District-Wide Basic Financial Statements

The focus of the Statement of Net Position is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Position focuses on the costs of the District's operational activities, which are supported primarily by local property taxes and State apportionment revenues. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District. The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in the District-wide financial statements.

This Annual Report

This annual report consists of the following sections:

- Management's Discussion and Analysis (MD&A) utilizing a current year/prior year format;
- District-Wide Basic Financial Statements, including required Notes to the Financial Statements; and
- Supplementary Information.

FINANCIAL HIGHLIGHTS

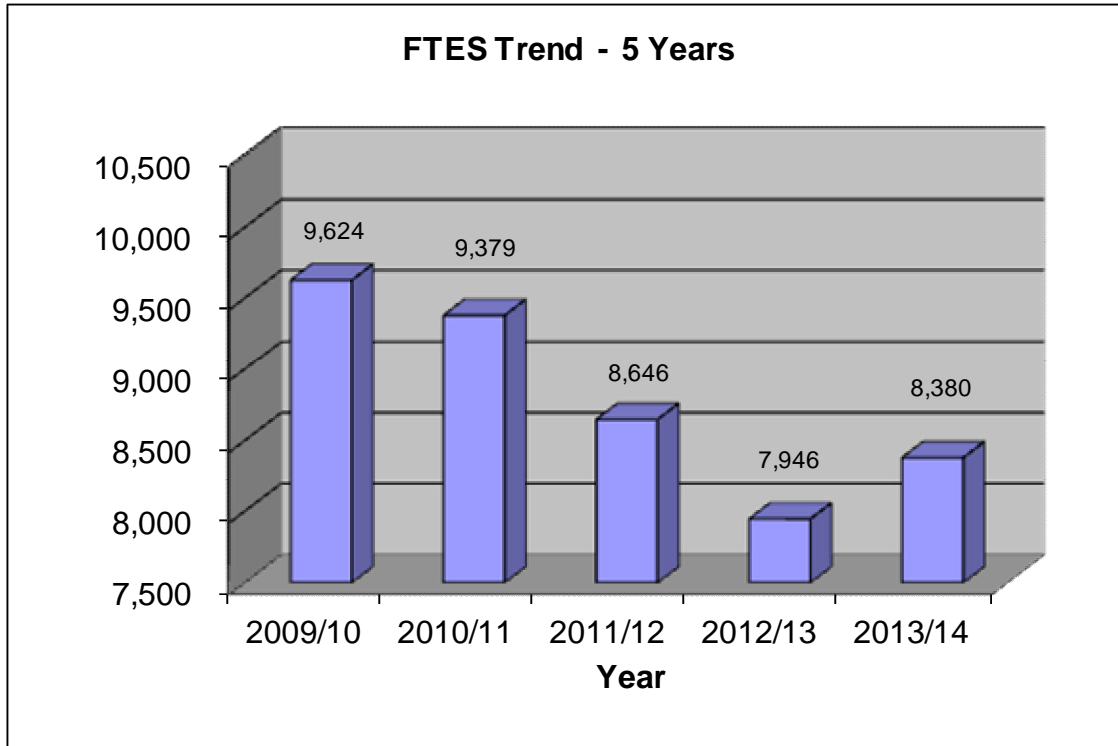
This section provides condensed information for each of the three basic financial statements, as well as illustrative charts, graphs, and tables.

The District's primary funding is based upon an apportionment allocation made by the State of California, Community Colleges Chancellor's Office (System Office). The primary basis for the Chancellor's apportionment calculation is the District's reporting of Full-Time Equivalent Students (FTES). During fiscal years 2013-2014 and 2012-2013, the District's FTES was 8,380 and 7,946, respectively. The District's FTES had been declining due to workload reductions imposed by the Chancellor's Office to offset State budget reductions.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The graph below depicts the District's five-year trend for FTES:



After the System Office calculates the District's base apportionment, it reduces the net amount to be distributed by the amount of property taxes, Prop 30 Education Protection Act funds, and enrollment fees expected to be paid directly to the District. The matrix below lists the four components and illustrates the net effect of the actual receipts for fiscal year 2013-2014 as compared to fiscal year 2012-2013:

<u>Fiscal Year</u>	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Property tax	\$ 28,855,111	\$ 29,832,461	\$ (977,350)
Enrollment fees	4,079,919	4,300,665	(220,746)
Apportionment	3,145,729	1,123,216	2,022,513
Education Protection Act	6,251,956	6,913,399	(661,443)
Total	<u>\$ 42,332,715</u>	<u>\$ 42,169,741</u>	<u>\$ 162,974</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

CONDENSED DISTRICT-WIDE FINANCIAL INFORMATION IS AS FOLLOWS:

**Condensed Statement of Net Position
as of June 30, 2014 and 2013**

Amounts in thousands

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash, investments, and short-term receivables	\$ 14,999	\$ 19,245
Inventory and other assets	789	1,181
Total Current Assets	<u>15,788</u>	<u>20,426</u>
Noncurrent Assets		
Capital assets, net of depreciation	114,204	117,701
Total Assets	<u>\$ 129,992</u>	<u>\$ 138,127</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,066	\$ 4,286
Short-term borrowing	-	3,355
Unearned revenue	1,422	1,709
Long-term obligations - current portion	1,071	1,051
Total Current Liabilities	<u>5,559</u>	<u>10,401</u>
Noncurrent Liabilities		
Long-term obligations - noncurrent portion	20,817	22,001
Total Liabilities	<u>26,376</u>	<u>32,402</u>
NET POSITION		
Net investment in capital assets	94,352	97,209
Restricted	4,429	4,207
Unrestricted	4,835	4,309
Total Net Position	<u>103,616</u>	<u>105,725</u>
Total Liabilities and Net Position	<u>\$ 129,992</u>	<u>\$ 138,127</u>

The preceding schedule has been prepared from the District's Statement of Net Position (page 14) which is presented on the accrual basis of accounting whereby assets are capitalized and depreciated. Cash and investments (above) consist primarily of funds held in the San Luis Obispo County Treasury. A portion of the unrestricted net position has been designated by the Board or by contract for such purposes as Federal and State grants, bookstore reserves, and general reserves to ensure the ongoing financial health of the District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Cash, investments, and short-term receivables decreased by \$4.2 million, capital assets decreased by \$3.5 million, and short-term borrowing decreased by \$3.4 million. The decrease in cash, investments, and short-term receivables was due to lower cash on hand at June 30 because of State deferrals and we did not issue a mid-year Tax and Revenue Anticipation Notes (TRANS) to provide cash flow. Capital assets decreased by \$3.5 million as a result of current year depreciation. Short-term borrowing decreased by \$3.4 million because the District did not issue a TRANS. The District did issue a mid-year TRAN in 2012-2013.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
for the Years Ended June 30, 2014 and 2013**

Amounts in thousands

	<u>2014</u>	<u>2013</u>
REVENUES		
Operating Revenues		
Tuition and fees	\$ 6,943	\$ 7,155
Auxiliary sales and charges	2,862	2,975
Total Operating Revenues	<u>9,805</u>	<u>10,130</u>
Operating Expenses		
Salaries and benefits	45,185	44,727
Supplies, maintenance, and other operating expense	13,657	12,696
Student aid	10,267	10,268
Depreciation	4,027	3,768
Total Operating Expenses	<u>73,136</u>	<u>71,459</u>
Operating Loss	<u>(63,331)</u>	<u>(61,329)</u>
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	11,310	8,359
Property taxes	28,624	29,600
Grants and contracts	17,477	16,392
State revenues	1,717	1,812
Investment income	87	63
Interest, net	(1,411)	(1,156)
Other nonoperating	2,437	2,734
Total Nonoperating Revenues (Expenses)	<u>60,241</u>	<u>57,804</u>
Loss Before Other Revenues	<u>(3,090)</u>	<u>(3,525)</u>
Other Revenues		
State and local capital income	<u>981</u>	<u>79</u>
Net Change in Net Position	<u>\$ (2,109)</u>	<u>\$ (3,446)</u>

The schedule presented above has been prepared from the Statement of Revenues, Expenses, and Changes in Net Position. State general apportionment, while budgeted for operations, is considered nonoperating revenue according to the Governmental Accounting Standards Board's (GASB) prescribed reporting format. Grant and contracts revenue includes student financial aid, as well as specific Federal and State grants received for programs serving the students of the District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

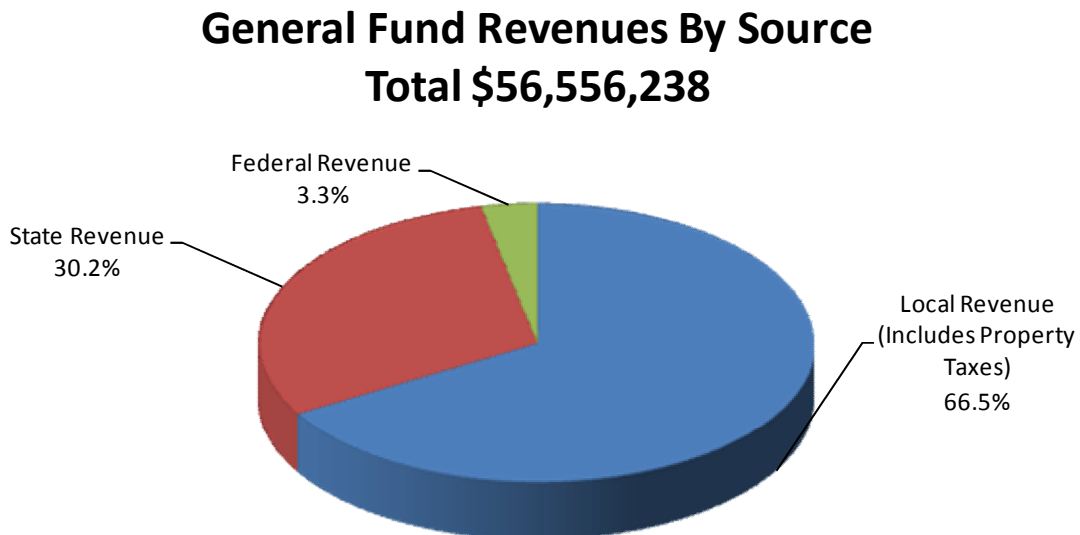
Operating revenues decreased by over \$300 thousand during fiscal year 2013-2014. Total operating expenditures increased by \$1.7 million. Salaries and benefits increased by \$450 thousand; supplies, maintenance, and other operating expenses increased by \$1 million; and depreciation increased by \$260 thousand.

General Fund

While this MD&A and the District-wide financial statements report the financial position and results of operations for the District as a whole, the following pie charts are intended to give the reader information specific to the General Fund.

General Fund Revenues by Source

The chart below depicts the District's General Fund total revenues by source:



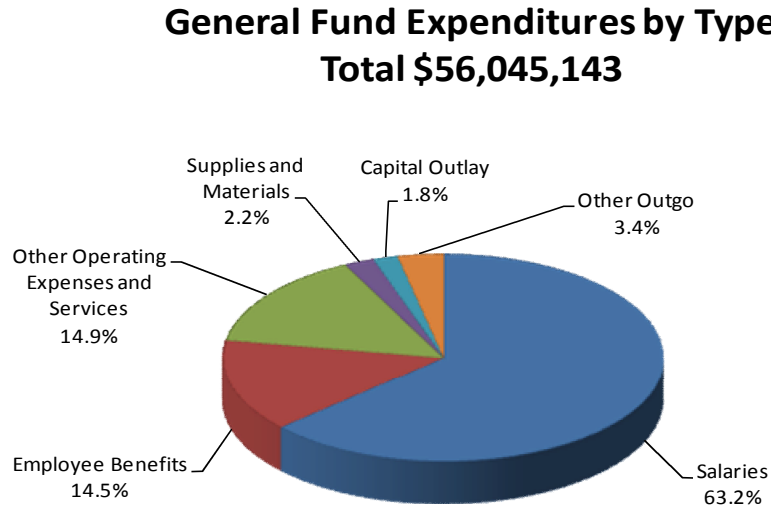
SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

General Fund Expenditures by Type

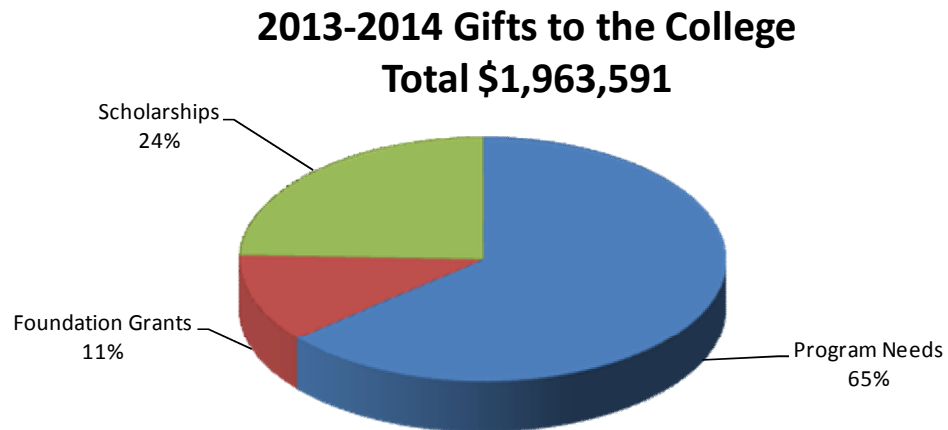
The chart below depicts the District's General Fund total expenditures by type:



Gifts Received from the Cuesta College Foundation

The Cuesta College Foundation provides essential financial support for the college's programs, services, scholarships and capital campaigns.

The chart below depicts the gifts the college received from of the Cuesta College Foundation.



SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Expenditures by Activity

The following table summarizes the District's expenditures by activity for the year ended June 30, 2014:

Functional Classifications	Salaries	Employee Benefits	Supplies, Materials, Other Operating Expenses, and Services	Depreciation	Total
Instructional	\$ 17,976,202	\$ 4,920,173	\$ 2,614,594	\$ -	\$ 25,510,969
Academic support	2,884,549	601,569	266,418	-	3,752,536
Student services	5,400,764	1,340,149	1,638,580	-	8,379,493
Operation and maintenance of plant	1,784,560	631,086	2,427,820	-	4,843,466
Institutional support	5,637,619	1,201,361	3,746,685	-	10,585,665
Community services and economic development	401,835	59,761	334,388	-	795,984
Auxiliary operations	1,871,170	474,630	1,795,561	-	4,141,361
Student aid	-	-	10,266,883	-	10,266,883
Other outgo	-	-	832,527	-	832,527
Depreciation	-	-	-	4,026,961	4,026,961
Total	\$ 35,956,699	\$ 9,228,729	\$ 23,923,456	\$ 4,026,961	\$ 73,135,845

**Condensed Statement of Cash Flows
for the Years Ended June 30, 2014 and 2013**

Amounts in thousands

	2014	2013
Cash Provided by (Used in)		
Operating activities	\$ (59,198)	\$ (57,932)
Noncapital financing activities	57,336	72,002
Capital financing activities	(5,680)	(6,689)
Investing activities	87	63
Net Change in Cash and Cash Equivalents	(7,455)	7,444
Cash and Cash Equivalents, Beginning of Year	16,026	8,582
Cash and Cash Equivalents, End of Year	<u>\$ 8,571</u>	<u>\$ 16,026</u>

The previous schedule has been prepared from the Statement of Cash Flows presented on pages 16 and 17. This statement provides information about cash receipts and cash payments during the fiscal year. It also helps users assess the District's ability to generate positive net cash flows and its ability to meet its obligations as they come due.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

The primary operating activities contributing to cash flow are student tuition and fees and Federal, State, and local grants and contracts, while the primary operating activity using cash flow throughout the year is the payment of salaries and benefits.

Even though State apportionment and property taxes are the primary source of District revenue (and cash flow), GASB accounting standards require that these sources of revenue be shown as nonoperating revenue since they come from the general resources of the State and not from the primary users of the District's programs and services (students). Nevertheless, the District depends upon this funding as the primary source of funds to continue operations.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The adopted 2014-2015 State budget reflects the net changes in the national and state economic outlook, the corresponding effects on revenues and the State's obligation to schools, increased costs for implementing federal health care reform and other spending adjustments.

The key developments and proposals reflected in the adopted 2014-2015 State budget include:

- A net increase of \$2.4 billion in expected revenues across 2012-2013 through 2014-2015. These higher revenues are largely a one-time bump in 2013-2014.
- Increase of \$459 million needed for Prop 98 minimum guarantee due to change in State revenues, lower property taxes, and higher enrollment in K-12 schools.
- Higher participation in Covered California and Medi-Cal will increase General Fund Medi-Cal costs by \$2.4 billion over two years, \$1.2 billion greater than projected in the Governor's January budget.
- The Governor declared a state of emergency due to increasingly severe drought conditions resulting in \$687 million in new expenditures.
- STRS adopted new assumptions regarding the longer life expectancy of retirees. The May revision includes an increase of \$430 million.
- Increase of \$100 million for trial court operations.
- Pay down of debts and liabilities.
- Maintain a balanced budget.
- Saving for a Rainy Day.

Challenges Ahead for the District

- The ability to meet our FTES Capacity in order to stabilize and maintain revenue.
- The costs of unfunded mandates.
- Increase in rates for PERS and STRS.
- Mandated expense with the adoption of health care reform in 2014.
- The rising cost of technology, service contracts, supplies, and facility maintenance.
- The ability of the District to earn restoration funds.
- The ability to maintain required match on categorical funds.
- Compliance with the 50 percent Law. Unless new legislation is written or waiver proposals are approved, many districts will be affected by having to make budget decisions based exclusively on the 50 percent Law.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the San Luis Obispo County Community College District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2014**

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,092,113
Short-term investments - unrestricted	2,490,651
Short-term investments - restricted	4,988,439
Accounts receivable	5,999,929
Student receivables, net	402,747
Due from fiduciary funds	25,000
Prepaid expenses	191,052
Inventories	572,907
Other current assets	24,779

Total Current Assets	<u>15,787,617</u>
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Noncurrent Assets

Nondepreciable capital assets	2,274,059
Depreciable capital assets, net of depreciation	111,930,161

Total Noncurrent Assets	<u>114,204,220</u>
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TOTAL ASSETS	<u>129,991,837</u>
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LIABILITIES

Current Liabilities

Accounts payable	2,756,705
Accrued interest payable	309,511
Unearned revenue	1,421,852
Bonds and notes payable - current portion	756,154
Other long-term obligations - current portion	314,439

Total Current Liabilities	<u>5,558,661</u>
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Noncurrent Liabilities

Bonds and notes payable - noncurrent portion	19,096,154
Other long-term obligations - noncurrent portion	1,721,010

Total Noncurrent Liabilities	<u>20,817,164</u>
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TOTAL LIABILITIES	<u>26,375,825</u>
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NET POSITION

Net investment in capital assets	94,351,912
Restricted for:	
Debt service	2,082,314
Capital projects	1,011,141
Educational programs	1,336,034
Unrestricted	4,834,611

TOTAL NET POSITION	<u>\$ 103,616,012</u>
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The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014**

OPERATING REVENUES	
Student Tuition and Fees	\$ 11,955,724
Less: Scholarship discounts and allowances	(5,013,078)
Net tuition and fees	<u>6,942,646</u>
Auxiliary Enterprise Sales and Charges	
Bookstore	2,355,899
Other Operating Revenues	<u>506,431</u>
TOTAL OPERATING REVENUES	<u><u>9,804,976</u></u>
OPERATING EXPENSES	
Salaries	35,956,699
Employee benefits	9,228,729
Supplies, materials, and other operating expenses and services	12,954,070
Equipment, maintenance, and repairs	702,503
Student aid	10,266,883
Depreciation	<u>4,026,961</u>
TOTAL OPERATING EXPENSES	<u><u>73,135,845</u></u>
OPERATING LOSS	<u><u>(63,330,869)</u></u>
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	11,310,255
Local property taxes, levied for general purposes	28,624,170
Grants and Contracts, noncapital	
Federal	11,685,914
State	5,790,433
State taxes and other revenues	1,717,217
Investment income	86,806
Interest expense on capital related debt	(1,412,501)
Investment income on capital asset-related debt, net	1,694
Transfer from fiduciary funds	74,977
Other nonoperating revenues	<u>2,362,154</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>60,241,119</u></u>
LOSS BEFORE OTHER REVENUES	<u><u>(3,089,750)</u></u>
OTHER REVENUES	
State revenues, capital	311,971
Local revenues, capital	<u>668,475</u>
TOTAL OTHER REVENUES	<u><u>980,446</u></u>
CHANGE IN NET POSITION	(2,109,304)
NET POSITION, BEGINNING OF YEAR	<u>105,725,316</u>
NET POSITION, END OF YEAR	<u><u>\$ 103,616,012</u></u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 7,200,963
Payments of student financial aid	(10,266,883)
Payments to vendors for supplies and services	(13,357,808)
Payments to or on behalf of employees	(45,636,455)
Auxiliary enterprise sales and charges	
Bookstore	2,862,330
Net Cash Flows From Operating Activities	<u>(59,197,853)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	8,447,394
Property taxes - nondebt related	28,624,170
Noncapital grants and contracts	16,449,442
State taxes and other apportionments	1,717,217
Other nonoperating revenues	2,098,445
Net Cash Flows From Noncapital Financing Activities	<u>57,336,668</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,624,024)
State revenue, capital projects	787,438
Local revenue, capital projects	668,475
Principal paid on capital debt	(4,091,154)
Interest paid on capital debt	(1,422,461)
Interest received on capital asset-related debt	1,694
Net Cash Flows From Capital Financing Activities	<u>(5,680,032)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	<u>86,806</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,454,411)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16,025,614</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 8,571,203</u></u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

**RECONCILIATION OF NET OPERATING LOSS TO NET
CASH FLOWS FROM OPERATING ACTIVITIES**

Operating Loss	<u>\$ (63,330,869)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	4,026,961
Changes in Operating Assets and Liabilities:	
Receivables, net	(292,626)
Inventories	47,370
Prepaid expenses and other assets	344,646
Accounts payable and accrued liabilities	(116,688)
Unearned revenue	550,943
Compensated absences, compensatory time, load banking, net OPEB obligation, and retirement incentives	<u>(427,590)</u>
Total Adjustments	<u>4,133,016</u>
Net Cash Flows From Operating Activities	<u><u>\$ (59,197,853)</u></u>

**CASH AND CASH EQUIVALENTS CONSIST
OF THE FOLLOWING:**

Cash in banks	\$ 1,092,113
Cash in County Treasury and money market	<u>7,479,090</u>
Total Cash and Cash Equivalents	<u><u>\$ 8,571,203</u></u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 1,205,538</u></u>
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The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	<u>Trust</u>	<u>Agency Funds</u>
ASSETS		
Investments	\$ 328,173	\$ 272,752
Accounts receivable	5,951	-
Total Assets	<u>\$ 334,124</u>	<u>\$ 272,752</u>
 LIABILITIES		
Accounts payable	\$ -	\$ 649
Due to primary government	25,000	-
Due to student groups	-	272,103
Total Liabilities	<u>25,000</u>	<u>\$ 272,752</u>
 NET POSITION		
Unreserved	309,124	
Total Liabilities and Net Position	<u>\$ 334,124</u>	

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEAR ENDED JUNE 30, 2014

	<u>Trust</u>
ADDITIONS	
Local revenues	<u>\$ 663,300</u>
DEDUCTIONS	
Classified salaries	27,200
Employee benefits	2,294
Books and supplies	3,260
Services and operating expenditures	96,005
Capital outlay	3,502
Total Deductions	<u>132,261</u>
EXCESS OF REVENUES OVER EXPENSES	<u>531,039</u>
OTHER FINANCING USES	
Transfers to primary government	(74,977)
Other uses	(466,874)
Total Other Financing Uses	<u>(541,851)</u>
Change in Net Position	(10,812)
Net Position - Beginning	319,936
Net Position - Ending	<u><u>\$ 309,124</u></u>

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - ORGANIZATION

The San Luis Obispo County Community College District (the District) was established in 1963 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected five-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. Currently, the District operates Cuesta College in San Luis Obispo, a satellite campus in Paso Robles, and a center in Arroyo Grande, California. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by GASB, the financial reporting entity consists of the primary government and the District.

The following entity met the criteria for inclusion as a "blended" component unit and is consolidated within the financial statements of the District:

- San Luis Obispo County Community College District Financing Corporation

The San Luis Obispo County Community College District Financing Corporation (the Corporation) is a legally separate organization and a component unit of the District. The Corporation was formed to issue debt specifically for the acquisition and construction of capital assets for the District. The financial activity has been "blended" or consolidated within the financial statements of the District as if the activity was the District's. Certificates of Participation issued by the Corporation are included as long-term obligations of the District. Individually prepared financial statements are not prepared for the Corporation. Condensed component unit information for the Corporation, the District's blended component unit, for the year ended June 30, 2014, is as follows:

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Condensed Statement of Net Position

ASSETS

Cash and Cash Equivalent	\$ 2,305,825
Due from Other fund	86,000
Total Assets	\$ 2,391,825

NET POSITION

Restricted for:	
Capital Projects	\$ 2,391,825
Total Net Position	\$ 2,391,825

Condensed Statement of Revenues, Expenses, and Changes in Net Position

NONOPERATING REVENUES

Investment income	\$ 1,753
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EXPENDITURES

1,781,597

TRANSFER IN

1,464,482

CHANGE IN NET POSITION

(315,362)

NET POSITION, BEGINNING OF YEAR

2,707,187

NET POSITION, END OF YEAR

\$ 2,391,825

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees and auxiliary activities through the bookstore.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis.
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Position - Primary Government;
 - Statement of Revenues, Expenses, and Changes in Net Position - Primary Government;
 - Statement of Cash Flows - Primary Government;
 - Financial Statements for the Fiduciary Funds including:
 - Statement of Fiduciary Net Position;
 - Statement of Changes in Fiduciary Net Position;
- Notes to the Financial Statements.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted 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.

Investments

Investments held at June 30, 2014, with original maturities greater than one year, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pools are determined by the program sponsor.

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 represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance and capital asset projects.

Accounts Receivable

Accounts receivable include 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 also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$1,541,238 for the years ended June 30, 2014.

Prepaid Expenses

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

Inventories

Inventories consist primarily of bookstore merchandise held for resale to the students and faculty of the colleges. Inventories are stated at cost, utilizing the weighted average method. The cost is recorded as an expense as the inventory is consumed.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Debt Issuance Costs, Premiums, and Discounts

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, building and land improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction in progress as the projects are constructed. Routine repairs and maintenance that do not extend the life of the building or equipment are charged as operating expenses in the year the expense is incurred.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; portables, 15 years; improvements, 10 years; equipment, 10 years; vehicles, 8 years; and technology, 3 years.

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 accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees who have accumulated the leave are paid. The District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized. Unearned revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year, and (2) amounts received from Federal and State grants received before the eligibility requirements are met are recorded as unearned revenue.

Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, compensatory time, load banking, supplemental retirement plan, and OPEB obligations with maturities greater than one year.

Net Position

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represent 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 net asset categories:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component of net investment in capital assets.

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. The District-wide financial statements report \$4,429,489 of restricted net position.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Luis Obispo bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is 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 represent the difference between stated charges for enrollment fees and the amount that is paid by students 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 Programs

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 either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the related *Compliance Supplement*.

On Behalf Payments

GASB Statement No. 24 requires direct on behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California. The California Department of Education has issued a fiscal advisory instructing districts not to record the revenue and expenditures for the on behalf payments within the funds and accounts of a district.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 for governmental activities are eliminated during the consolidation process in the entity-wide financial statements.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Change in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions 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 Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a State or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Statement No. 68 requires a State or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a State or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a State or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within 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 mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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

Authorized Under Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of debt agreements, rather than the general provisions of the *California Government Code*. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, consist of the following:

Primary government	\$ 8,571,203
Fiduciary funds	600,925
Total Deposits and Investments	\$ 9,172,128
Cash on hand and in banks	\$ 1,085,613
Cash in revolving	6,500
Investments	8,080,015
Total Deposits and Investments	\$ 9,172,128

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by primarily investing in the San Luis Obispo County Investment Pool or purchasing money market funds.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
San Luis Obispo County Investment Pool	\$ 6,349,982	251
U.S. Bank Money Market	1,734,293	N/A
Total	<u>\$ 8,084,275</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Luis County Investment Pool was rated by Fitch Ratings as AAA/V1 as of March 21, 2014. The U.S. Bank Money Market account was not rated.

Custodial Credit Risk - Deposits

This 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 for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District's bank balance was \$1,100,182. Of this balance, \$412,868 was exposed to custodial credit risk because it was uninsured but is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

The accounts receivable are as follows:

	<u>Primary Government</u>
Federal Government	
Categorical aid	\$ 702,975
State Government	
Apportionment	3,311,063
Categorical aid	210,939
Lottery	255,623
Local Sources	
Foundation	372,414
Interest and other local sources	1,146,915
Total	<u>\$ 5,999,929</u>
Student receivables	\$ 1,943,985
Less allowance for bad debt	<u>(1,541,238)</u>
Student receivables, net	<u>\$ 402,747</u>
	<u>Fiduciary Funds</u>
Other local sources	<u>\$ 5,951</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2014, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 1,216,661	\$ -	\$ -	\$ 1,216,661
Construction in progress	1,057,398	-	-	1,057,398
Total Capital Assets Not Being Depreciated	<u>2,274,059</u>	<u>-</u>	<u>-</u>	<u>2,274,059</u>
Capital Assets Being Depreciated				
Land improvements	15,221,661	8,496	-	15,230,157
Portable buildings	3,127,728	-	-	3,127,728
Buildings and improvements	139,200,817	77,243	-	139,278,060
Equipment	3,537,106	274,324	-	3,811,430
Technology equipment	7,119,543	55,763	-	7,175,306
Furniture and fixtures	152,442	-	-	152,442
Vehicles	1,010,973	114,531	-	1,125,504
Total Capital Assets Being Depreciated	<u>169,370,270</u>	<u>530,357</u>	<u>-</u>	<u>169,900,627</u>
Total Capital Assets	<u>171,644,329</u>	<u>530,357</u>	<u>-</u>	<u>172,174,686</u>
Less Accumulated Depreciation				
Land improvements	11,948,686	526,010	-	12,474,696
Portable buildings	2,852,124	104,550	-	2,956,674
Buildings and improvements	28,817,859	2,784,461	-	31,602,320
Equipment	2,821,432	274,819	-	3,096,251
Technology equipment	6,584,164	270,669	-	6,854,833
Furniture and fixtures	152,442	-	-	152,442
Vehicles	766,798	66,452	-	833,250
Total Accumulated Depreciation	<u>53,943,505</u>	<u>4,026,961</u>	<u>-</u>	<u>57,970,466</u>
Net Capital Assets	<u>\$ 117,700,824</u>	<u>\$ (3,496,604)</u>	<u>\$ -</u>	<u>\$ 114,204,220</u>

Depreciation expense for the year was \$4,026,961.

Interest expense on capital related debt for the year ended June 30, 2014, was \$1,446,036. Of this amount, \$33,535 was capitalized.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	<u>Primary Government</u>
Vendor payables	\$ 1,179,903
Construction	114,988
Accrued payroll	543,880
Instructional service agreements	573,980
Apportionment	343,954
Total	<u>\$ 2,756,705</u>
	<u>Fiduciary Funds</u>
Other	<u>\$ 649</u>

NOTE 7 - SHORT-TERM BORROWING

In July 2013, the District issued \$4,220,000 of Tax and Revenue Anticipation Notes. The yield on the notes is 0.28 percent. The notes were issued to supplement cash flows. The terms require the District to set aside, in the County Treasury, 100 percent of the principal and interest due on the notes at maturity. The notes matured on June 30, 2014. As of June 30, 2014, the tax anticipation note was paid in full.

The District issued \$3,355,000 of Tax and Revenue Anticipation Notes dated February 28, 2013, through the California Community College Financing Authority. The notes matured on December 31, 2013, and yielded 0.25 percent interest. The notes were sold to supplement cash flow. As of June 30, 2014, the tax anticipation note was paid in full.

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2014</u>
2/28/13	0.25%	12/31/2013	\$ 3,355,000	\$ -	\$ 3,355,000	\$ -
7/17/13	0.28%	6/30/2014	-	4,220,000	4,220,000	-
			<u>\$ 3,355,000</u>	<u>\$ 4,220,000</u>	<u>\$ 7,575,000</u>	<u>\$ -</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 - UNEARNED REVENUE

Unearned revenue consisted of the following:

	Primary Government
State categorical aid	\$ 351,919
Student tuition and fees and other	1,069,933
Total	<u>\$ 1,421,852</u>

NOTE 9 - 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 has 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. As of June 30, 2014, the fiduciary funds owed the primary government \$25,000.

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. During the 2014 fiscal year, the amount transferred to the primary government from the fiduciary fund amounted to \$74,977.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2014 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
2003 Certificates of participation	\$ 1,590,000	\$ -	\$ 235,000	\$ 1,355,000	\$ 240,000
2006 Certificates of participation	11,575,000	-	320,000	11,255,000	330,000
2009 Certificates of participation	7,185,000	-	135,000	7,050,000	140,000
Notes payable	238,462	-	46,154	192,308	46,154
Total Bonds and Notes Payable	<u>20,588,462</u>	<u>-</u>	<u>736,154</u>	<u>19,852,308</u>	<u>756,154</u>
Other Obligations					
Compensated absences	1,381,442	-	154,390	1,227,052	-
Compensatory time	45,298	-	259	45,039	-
Net OPEB obligation	214,383	109,742	40,104	284,021	-
Load banking	193,039	-	28,141	164,898	-
Supplemental early retirement plan	628,877	-	314,438	314,439	314,439
Total Other Obligations	<u>2,463,039</u>	<u>109,742</u>	<u>537,332</u>	<u>2,035,449</u>	<u>314,439</u>
Total Long-Term Obligations	<u>\$ 23,051,501</u>	<u>\$ 109,742</u>	<u>\$ 1,273,486</u>	<u>\$ 21,887,757</u>	<u>\$ 1,070,593</u>

Certificates of participation are paid from the unrestricted resources of the General Fund and payment is made through the Other Debt Service Fund. The note payable and the Supplemental Early Retirement Plan are paid from resources of the unrestricted General Fund. Compensated Absences and Compensatory Time payments are employee related and are paid in the funds where the employee's payroll is paid. The Net OPEB obligation is paid by the unrestricted General Fund. Load banking is an obligation of the General Fund.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2003 Certificates of Participation

On July 15, 2003, the San Luis Obispo County Community College District Financing Corporation issued \$3,325,000 of certificates of participation with interest rates ranging from 1.10 percent to 3.80 percent. The certificates mature through July 2017 (fiscal year 2018). At June 30, 2014, the principal balance outstanding is \$1,355,000.

Year Ending June 30,	Principal	Interest	Total
2015	\$ 240,000	\$ 45,105	\$ 285,105
2016	255,000	36,623	291,623
2017	260,000	27,480	287,480
2018	600,000	11,400	611,400
Total	<u>\$ 1,355,000</u>	<u>\$ 120,608</u>	<u>\$ 1,475,608</u>

2006 Certificates of Participation

In July 2006, the San Luis Obispo County Community College District Financing Corporation issued \$12,990,000 of certificates of participation to finance the acquisition and construction of certain educational projects of the District. The certificates' interest rates range from 4.0 percent to 4.5 percent. The certificates mature through February 2035. At June 30, 2014, the principal balance outstanding is \$11,255,000.

Year Ending June 30,	Principal	Interest	Total
2015	\$ 330,000	\$ 529,189	\$ 859,189
2016	345,000	515,576	860,576
2017	360,000	500,914	860,914
2018	375,000	485,434	860,434
2019	390,000	468,934	858,934
2020-2024	2,245,000	2,060,749	4,305,749
2025-2029	2,825,000	1,481,736	4,306,736
2030-2034	3,565,000	735,592	4,300,592
2035	820,000	39,975	859,975
Total	<u>\$ 11,255,000</u>	<u>\$ 6,818,099</u>	<u>\$ 18,073,099</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

2009 Certificates of Participation

In November 2009, the District issued \$24,995,000 of certificates of participation to finance the acquisition and construction of certain facilities and refinance certain District obligations. The certificates' interest rates range from 3.1 percent to 5.9 percent. The certificates mature through 2040. At June 30, 2014, the principal balance outstanding is \$7,050,000.

Year Ending June 30,	Principal	Interest	Total
2015	\$ 140,000	\$ 384,444	\$ 524,444
2016	140,000	379,544	519,544
2017	150,000	373,919	523,919
2018	155,000	367,625	522,625
2019	160,000	360,731	520,731
2020-2024	930,000	1,676,072	2,606,072
2025-2029	1,195,000	1,393,812	2,588,812
2030-2034	1,570,000	1,007,037	2,577,037
2035-2039	2,115,000	473,378	2,588,378
2040	495,000	14,541	509,541
Total	<u>\$ 7,050,000</u>	<u>\$ 6,431,103</u>	<u>\$ 13,481,103</u>

Notes Payable

The notes payable were issued in February 2013 in the amount of \$250,000 to fund energy efficiency retrofitting projects throughout the District.

The annual debt service requirements to amortize the notes payable outstanding as of June 30, 2014, are as follows:

Year Ending June 30,	
2015	\$ 46,154
2016	46,154
2017	46,154
2018	46,154
2019	7,692
Total	<u>\$ 192,308</u>

Compensated Absences and Compensatory Time

Compensated absences and compensatory time at June 30, 2014, are \$1,227,052, and \$45,039, respectively.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2014, was \$110,435, and contributions made by the District during the year were \$40,104. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$10,719 and \$(11,412), respectively, which resulted in an increase to the net OPEB obligation of \$69,638. As of June 30, 2014, the net OPEB obligation was \$284,021. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Load Banking

In accordance with the bargaining unit agreement with faculty, unpaid excess courses taught by faculty may be exchanged for reduced teaching load in future terms. The value is based on the salary of the faculty member when earned and is calculated using full-time equivalent units. The accumulated unused value at June 30, 2014, is \$164,898.

Supplemental Early Retirement Plan

The District offered a supplemental early retirement incentive to qualified employees. Employees who have attained a certain age and number of years of service with the District as of June 30, 2010, were eligible to receive this benefit. The retiree is provided an annuity in exchange for retirement. The District is required to make annual payments of \$194,439. At June 30, 2014, the balance of the payments is \$194,438 in accordance with the following schedule:

Year Ending June 30, <u>2015</u>	<u>\$ 194,439</u>
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The District offered a supplemental early retirement incentive to qualified employees. Employees who have attained a certain age and number of years of service with the District as of June 30, 2012, were eligible to receive this benefit. The retiree is provided a payment of \$15,000 for the next three years in exchange for retirement. The District is required to make annual payments of \$120,000. At June 30, 2014, the balance of the payments is \$120,000 in accordance with the following schedule:

Year Ending June 30, <u>2015</u>	<u>\$ 120,000</u>
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**NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS
(OPEB) OBLIGATION**

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Plan Description

The District offers limited postemployment benefits. One former administrator was offered lifetime health benefits as part of their employment contract. Other than this administrator, certain eligible active and retired employees are provided the opportunity to purchase insurance directly from providers through the District, thereby providing employees with a benefit derived from the combined purchasing power of the employees who elect to participate. Membership of the plan consists of 37 retirees and 421 active plan members.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. For the fiscal year 2013-2014, the District's actuarial contribution to the plan was \$40,104 all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

Annual required contribution	\$	110,435
Interest on net OPEB obligation		10,719
Adjustment to annual required contribution		(11,412)
Annual OPEB cost (expense)		<u>109,742</u>
Contribution made		<u>(40,104)</u>
Increase in net OPEB obligation		69,638
Net OPEB obligation, beginning of year		<u>214,383</u>
Net OPEB obligation, end of year	\$	<u><u>284,021</u></u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2012	\$ 93,313	\$ 55,879	60%	\$ 163,989
2013	93,412	43,018	46%	214,383
2014	109,742	40,104	37%	284,021

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2014, is as follows:

Actuarial Accrued Liability (AAL)	\$ 686,145
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 686,145</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	<u>\$ 34,068,706</u>
UAAL as Percentage of Covered Payroll	<u>2%</u>

The above noted actuarial accrued liability was based on the February 1, 2014, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

In the February 1, 2014, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 percent investment rate of return based on the assumed long-term return on plan assets or employer assets. The cost trend rate used for the medical program was four percent. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period is 24 years. The actuarial value of assets was not determined in this actuarial study.

NOTE 12 - RISK MANAGEMENT

Insurance Coverages

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.

Joint Powers Authority Risk Pools

During fiscal year ended June 30, 2014, the District contracted with the Bay Area Community College District Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2013-2014, the District participated in the Self-Insurance Program for Employees (SIPE) Joint Powers Authority (JPA), an insurance purchasing pool. The District is self insured for the first \$10,000 of each workers' compensation claim. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

Employee Medical Benefits

The District offers a variety of medical benefit options to its employees. This includes utilizing both services provided by agreements with two Joint Powers Authorities and direct programs through Blue Shield, an insurance provider.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The District has contracted with Self-Insured Schools of California (SISC III) to provide medical plans to faculty and other eligible District employees. SISC III is a shared risk pool. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of the claims flow. The Board of Directors has the right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

Also offered are vision and dental benefits. Dental benefits are provided through California Schools Dental Coalition, a Joint Powers Authority. Vision benefits are provided through Blue Shield, an insurance provider.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of CalSTRS and classified employees are members of CalPERS.

CalSTRS

Plan Description

The District contributes to a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Due to the implementation of the PEPRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$1,694,889, \$1,628,603, and \$1,717,340, respectively, and equal 100 percent of the required contributions for each year. The State of California may make additional direct payments for retiree benefits to CalSTRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

CalPERS

Plan Description

The District contributes to the School Employer Pool under a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the PEPR, changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

As a result of the implementation of the PEPR, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$1,477,602, \$1,441,218, and \$1,509,410, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, which amounted to \$1,205,538, \$1,095,020, and \$1,056,200, respectively, (5.541 percent) 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. No contributions were made for CalPERS for the years ended June 30, 2014, 2013, and 2012. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Bay Area Community College District Joint Powers Agency (BACCD), Self-Insurance Program for Employees (SIPE), Self-Insured Schools of California (SISC III), and the California Dental Coalition. Each of these entities is a Joint Powers Authorities (JPAs). The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

The District has appointed one representative to the Governing Board of BACCD and SIPE.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2014, the District made payments of \$348,605, \$317,629, \$1,919,854, and \$406,186 to the BACCD, SIPE, SISC III, and the California Dental Coalition, respectively.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

Litigation

The District is involved in various litigation 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, 2014.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$3,625,000 of Tax and Revenue Anticipation Notes dated July 16, 2014. The notes mature on June 30, 2015, and yield .13 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent with 50 percent due in January 2015 and the balance due April 2015.

On November 4, 2014, San Luis Obispo County voters resoundingly approved Measure L, a \$275 million local education bond measure, paving the way for Cuesta College to address longstanding facility, infrastructure and technology needs. The bond required a 55 percent approval of SLO County voters to be successful; it achieved 61.73 percent.

REQUIRED SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
October 1, 2009	\$ -	\$ 641,747	\$ 641,747	0%	\$ 34,721,981	2%
February 1, 2012	-	702,379	702,379	0%	34,634,882	2%
February 1, 2014	-	686,145	686,145	0%	34,068,706	2%

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2014

The San Luis Obispo County Community College District was established on April 16, 1963, and is comprised of an area of approximately 3,316 square miles located in San Luis Obispo County. There were no changes in the boundaries of the District during the current year. The District's colleges are accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Patrick Mullen	President	2014
Charlotte Alexander	Vice President	2014
Angela Mitchell	Member	2016
Richard Hitchman	Member	2016
Barbara George	Member	2016
Scott Chedester	Student Trustee	2015

ADMINISTRATION

Gilbert H. Stork	President and District Superintendent
Toni Sommer	Vice President, Administrative Services
Sandee McLaughlin	Vice President, Student Services and College Centers
Deborah Wulff	Vice President, Academic Affairs

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program (PELL)	84.063		\$ 6,351,721
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		88,261
Federal College Work Study	84.033		113,966
Federal Direct Student Loans	84.268		3,404,970
Total Student Financial Assistance Cluster			<u>9,958,918</u>
Passed through California Community Colleges Chancellor's Office			
Perkins Career Technical Education Act			
Career and Technical Education (CTE), Title I-C	84.048	13-C01-051	313,644
CTE Transitions	84.048A	13-112-640	41,871
Passed through California Department of Education			
Adult Education and Family Literacy Act	84.002A	40-6881	52,449
English Literacy and Civics Education: Civic Participation, Citizenship Preparation	84.002	40-6881	42,830
Passed through San Luis Obispo County Department of Social Services			
Independent Living Program	84.169	C020 2013	365,497
Total U.S. Department of Education			<u>10,775,209</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665		4,142
U.S. DEPARTMENT OF DEFENSE			
National Guard Military Operations and Maintenance (O and M) Projects			
Passed through State of California, Military Department			
Dining Facility Coordinator	12.401	A0246 & CO138	78,603
U.S. DEPARTMENT OF LABOR			
Passed through Goodwill Industries of Santa Cruz, Monterey, and San Luis Obispo Counties			
WIA Youth Employment	17.259	C014 2013	757,885

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
NATIONAL SCIENCE FOUNDATION			
Passed through Santa Clarita Community College District Project Create*	47.076	1002653	\$ 14,466
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Education	64.028		3,084
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Community Colleges Chancellor's Office Temporary Assistance to Needy Families (TANF)	93.558	**	42,830
Total Expenditures of Federal Awards			<u>\$ 11,676,219</u>

* Research and Development grant.

** Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Adult Education Consortium (AB86)	\$ 248,542	\$ -	\$ 248,542
Basic Skills	90,000	59,330	149,330
CalWORKS	210,785	-	210,785
CCC Student Mental Health (TAFY)	15,000	-	15,000
Challenge Los Alamitos	168,769	-	168,769
Cooperative Agencies Resources for Education (CARE)	60,524	-	60,524
Deputy Sector Navigator	300,000	-	300,000
Disabled Student Programs and Services (DSPS)	583,357	752	584,109
Equal Employment Opportunity	5,674	-	5,674
Extended Opportunity Program and Services (EOPS)	373,474	-	373,474
Faculty and Staff Development (SB1131)	-	642	642
Foster Parent Training Program	136,456	-	136,456
Grizzly Academy Health	167,433	-	167,433
Innovative Wellness Arts	68,888	-	68,888
Institutional Transition Program	631,354	-	631,354
Instructional Equipment	108,815	-	108,815
Matriculation (Credit)	514,022	-	514,022
Matriculation (Non-Credit)	40,053	-	40,053
Nursing Enrollment Growth and Retention	311,721	261,846	573,567
Student Financial Aid Administration (BFAP)	336,179	-	336,179
Student Mental Health Program	105,749	-	105,749
Successful Launch	104,731	7,266	111,997
Technical Education Community Collaborative (SB70)	959,147	736,455	1,695,602
YESS California	22,500	-	22,500
Youth Entrepreneurship	-	11,059	11,059
Youth Entrepreneurship Program	147,598	113,348	260,946

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable/(Payable)	Unearned Revenue	Total Revenue	Program Expenditures
\$ 124,271	\$ -	\$ 73,453	\$ 50,818	\$ 50,818
149,330	-	76,035	73,295	73,295
210,785	(4,274)	-	206,511	206,511
5,858	4,131	-	9,989	9,989
70,339	10,046	-	80,385	80,385
60,524	-	-	60,524	60,524
120,000	-	27,870	92,130	92,130
584,109	-	-	584,109	584,109
5,674	-	-	5,674	5,674
373,474	-	-	373,474	373,474
642	-	309	333	333
86,406	50,050	-	136,456	136,456
60,581	9,055	-	69,636	69,636
30,984	6,812	-	37,796	37,796
-	90	-	90	90
108,815	-	-	108,815	108,815
514,022	-	69,373	444,649	444,649
40,053	-	-	40,053	40,053
261,846	49,875	-	311,721	311,721
336,179	-	-	336,179	336,179
54,215	14,327	-	68,542	68,542
80,505	31,492	8,029	103,968	103,968
776,878	-	96,850	680,028	680,028
14,504	5,811	-	20,315	20,315
11,059	-	-	11,059	11,059
118,348	29,250	-	147,598	147,598
<u>\$ 4,199,401</u>	<u>\$ 206,665</u>	<u>\$ 351,919</u>	<u>\$ 4,054,147</u>	<u>\$ 4,054,147</u>

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2014**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession (Summer 2013 only)			
1. Noncredit*	92	-	92
2. Credit	547	-	547
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
1. Noncredit*	-	-	-
2. Credit	615	-	615
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	5,879	-	5,879
(b) Daily Census Contact Hours	437	-	437
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	122	-	122
(b) Credit	39	-	39
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	475	-	475
(b) Daily Census Contact Hours	174	-	174
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>8,380</u>	<u>-</u>	<u>8,380</u>
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	-	-	-
H. Basic Skills Courses and Immigrant Education			
1. Noncredit*	212	-	212
2. Credit	318	-	318
<u>CCFS-320 Addendum</u>			
CDCP Noncredit FTES	146	-	146
Centers FTES			
1. Noncredit*	21	-	21
2. Credit	1,453	-	1,453

* Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2014

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Audited Data	Reported Data	Audit Adjustments	Audited Data
Academic Salaries							
Instructional Salaries							
Contract or Regular	1100	\$ 16,229,743	\$ -	\$ 16,229,743	\$ 16,229,743	\$ -	\$ 16,229,743
Other	1300	-	-	-	-	-	-
Total Instructional Salaries		16,229,743	-	16,229,743	16,229,743	-	16,229,743
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	4,385,938	-	4,385,938
Other	1400	-	-	-	212,461	-	212,461
Total Noninstructional Salaries		-	-	-	4,598,399	-	4,598,399
Total Academic Salaries		16,229,743	-	16,229,743	20,828,142	-	20,828,142
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	8,082,178	-	8,082,178
Other	2300	-	-	-	398,359	-	398,359
Total Noninstructional Salaries		-	-	-	8,480,537	-	8,480,537
Instructional Aides							
Regular Status	2200	738,010	-	738,010	738,010	-	738,010
Other	2400	114,340	-	114,340	114,340	-	114,340
Total Instructional Aides		852,350	-	852,350	852,350	-	852,350
Total Classified Salaries		852,350	-	852,350	9,332,887	-	9,332,887
Employee Benefits	3000	3,440,322	-	3,440,322	6,964,405	-	6,964,405
Supplies and Material	4000	-	-	-	597,660	-	597,660
Other Operating Expenses	5000	573,980	-	573,980	5,243,333	-	5,243,333
Equipment Replacement	6420	-	-	-	2,396	-	2,396
Total Expenditures							
Prior to Exclusions		21,096,395	-	21,096,395	42,968,823	-	42,968,823

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2014

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Audited Data	Reported Data	Audit Adjustments	Audited Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 325,133	\$ -	\$ 325,133	\$ 325,133	\$ -	\$ 325,133
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	154,554	-	154,554
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	4,301	-	4,301
Objects to Exclude							
Rents and Leases	5060	-	-	-	89,196	-	89,196
Lottery Expenditures							
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Audited Data	Reported Data	Audit Adjustments	Audited Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 963,669	\$ -	\$ 963,669
Capital Outlay	6000						
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		325,133	-	325,133	1,536,853	-	1,536,853
Total for ECS 84362, 50 Percent Law		\$ 20,771,262	\$ -	\$ 20,771,262	\$ 41,431,970	\$ -	\$ 41,431,970
Percent of CEE (Instructional Salary Cost/Total CEE)		50.13%		50.13%	100.00%		100.00%
50% of Current Expense of Education					\$ 20,715,985		\$ 20,715,985

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Summarized below is the fund balance reconciliation between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements.

	<u>Bookstore</u>
FUND BALANCE	
Balance, June 30, 2014, (CCFS-311)	\$ 577,317
Decrease in:	
Revenue	<u>(15,886)</u>
Balance, June 30, 2014, Fund Financial Statement	<u><u>\$ 561,431</u></u>

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

Activity Classification	Object Code	Unrestricted			
EPA Proceeds:	8630				\$ 6,251,956
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 6,251,956			\$ 6,251,956
Total Expenditures for EPA		\$ 6,251,956	-	-	\$ 6,251,956
Revenues Less Expenditures					\$ -

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2014**

**Amounts Reported for Governmental Activities in the Statement
of Net Position are Different Because:**

Total Fund Balance and Due to Student Groups:

General Fund - unrestricted	\$ 5,913,843
General Fund - restricted	1,336,034
Special Revenue Funds	64,195
Capital Project Funds	1,011,141
Debt Service Funds	2,391,825
Enterprise Funds	561,431
Internal Service Funds	<u>306,767</u>

Total Fund Balances and Due to Student Groups

- All District Funds

\$ 11,585,236

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: 172,174,686

Accumulated depreciation is: (57,970,466)

Total Capital Assets on the Statement of Net Position 114,204,220

Less fixed assets already recorded in the enterprise funds (9,461)

Total Capital Assets Net of Capital Assets of the Enterprise Fund 114,194,759

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.

(309,511)

Long-term obligations, including notes 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:

2003 Certificates of participation	1,355,000
2006 Certificates of participation	11,255,000
2009 Certificates of participation	7,050,000
Note payable	192,308
Compensated absences (less amount set up in enterprise funds)	1,193,767
Compensatory time	45,039
Net OPEB obligation	284,021
Load banking	164,898
Supplemental early retirement plan	<u>314,439</u>
Total Net Position	<u><u>\$ 103,616,012</u></u>

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members 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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Federal Pell Grant Program (PELL) funds that have been recorded in the current period as revenues, but have not been expended as of June 30, 2014. These unspent balances are reported as legally restricted ending balances within the Statement of Net Position - Primary Government.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Position:		\$ 11,685,914
Federal Pell Grant Program (PELL)	84.063	(9,695)
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 11,676,219</u></u>

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
WIA Youth Employment		
Pass-through to the San Luis Obispo County Office of Education	17.259	<u><u>\$ 20,000</u></u>

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.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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 Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's internal fund financial statements.

Proposition 30 Education Protection Act (EPA) Expenditure Report

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 AUDITOR'S REPORTS



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

Board of Trustees
San Luis Obispo County Community College District
San Luis Obispo, 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 of San Luis Obispo County Community College District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 19, 2014.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated December 19, 2014.

Purpose of This Report

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

Vannick, Taine, Day & Co., LLP

Rancho Cucamonga, California
December 19, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
San Luis Obispo County Community College District
San Luis Obispo, California

Report on Compliance for Each Major Federal Program

We have audited San Luis Obispo County Community College District's (the District) compliance with the types of compliance requirements described in OMB Circular A-133 *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, 2014. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

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 OMB Circular A-133, 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 a 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* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vannich, Tunc, Day & Co., LLP

Rancho Cucamonga, California
December 19, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
San Luis Obispo County Community College District
San Luis Obispo, California

Report on State Compliance

We have audited San Luis Obispo County Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in December 2013 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in December 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual*. 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 for 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, 2014.

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

- Section 421 Salaries of Classroom Instructors (50 Percent Law)
- Section 423 Apportionment for Instructional Service Agreements/Contracts
- 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 430 Schedule Maintenance Program
- Section 431 Gann Limit Calculation
- Section 435 Open Enrollment
- Section 438 Student Fees – Health Fees and Use of Health Fee Funds
- Section 439 Proposition 39 Clean Energy
- Section 474 Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- 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

Vannich, Tine, Day & Co., LLP

Rancho Cucamonga, California
December 19, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.063; 84.007; 84.033; 84.268</u>	<u>Student Financial Assistance Cluster</u>
<u>84.169</u>	<u>Independent Living Program</u>
<u>17.259</u>	<u>WIA Youth Employment</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Audit Findings and Questioned Costs.

Financial Statement Findings

None

Federal Awards Findings

None

State Awards Findings

None