

DESERT COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

DESERT COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Desert Community College District
Palm Desert, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Desert Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2017-2018 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 15, and other required supplementary schedules on pages 68 through 73, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information 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 November 26, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavinek Time Day & Co LLP

Riverside, California
November 26, 2018

Becky Broughton
Chair, Board of Trustees

Bonnie Stefan, Ed.D.
Vice Chair

Fred E. Jandt, Ph.D.
Clerk

**Mary Jane
Sanchez-Fulton**
Member

Aurora Wilson
Member

Arturo Delgado
Student Trustee

Joel L. Kinnamon, Ed.D.
Superintendent/President



USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities, programs, and financial condition of the Desert Community College District (the District) as of June 30, 2018. The report consists of three basic financial statements: the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with District management.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Desert Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for Public College and Universities*. This statement allows for the presentation of financial activity and results of operations which focuses on the District as a whole. The government-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. 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 with revenues and expenses categorized as operating and non-operating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business-Type Activity (BTA) model for financial statement reporting purposes. This model prescribes that the districts need only issue consolidated statements. This reporting model does not require fund financial statements to be included with the District's annual financial report.

DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

FINANCIAL HIGHLIGHTS

The following discussion and analysis provide an overview of the District's financial activities:

As of June 30, 2018, the District's total net position is \$83,680,099. Total net position of the District increased \$7,131,736 from the previous year. The District's General Fund Unrestricted balance at the end of the fiscal year decreased to \$13,010,590. The District continues to maintain the board recommended 7.5 percent reserve for economic uncertainties.

The District's primary unrestricted funding source is from apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the 2017-2018 fiscal year, total funded credit and non-credit FTES were 10,140 with no unfunded credit FTES.

Cost-of-living and growth adjustment: The calculated statutory cost-of-living (COLA) was 1.56 percent. Growth funding of \$5,869,743 and a base revenue increase of \$1,599,176 was included.

Enrollment fee: During 2017-2018, the enrollment fees charged to students were unchanged at \$46 per unit which is established by the State for all community colleges. Enrollment fees are included in the calculation of general apportionment.

The voters within the boundaries of the Desert Community College District overwhelmingly supported the passage of Measure B, a \$346.5 million general obligation bond issue on March 2, 2004. The term of the bonds will be from August 2004 to and including 2046. The first issuance for bond sales was for \$65 million in August 2004 and refunded in June 2005 bringing the total to \$73 million. In November 2007, the District issued General Obligation Bonds, Series 2007B, in the amount of \$57,850,000. In December 2007, the District issued the final approved principle amount of General Obligation Bonds, Series 2007C, in the amount of \$223,648,444.

On November 8, 2016, the voters again provided strong support in supporting the passage of Measure CC, a \$577.8 million dollar general obligation bond authorization to address future facility needs at the District. In June 2018, the District issued the first series in the amount of \$50 million. These bonds will be used to fund the District's Capital Improvement Plan, which includes acquisition, construction, modernization, renovation, and equipping of certain District property and facilities, and to pay certain costs of issuance of said bonds.

STATEMENT OF NET POSITION

The District's financial position, as a whole, increased during the current fiscal year ending June 30, 2018. The total net position increased \$7,131,736 from the previous year due primarily to increases in debt service collections for the general obligation bonds.

The District was given a growth target of 1.47 percent. The District achieved a growth rate of 10.63 percent which included adjustments which led to an increase in our base of \$5,869,743. The District continues to monitor growth and utilizes conservative fiscal projections. In addition, a base increase of \$1,599,176 was included in the District's general apportionment.

DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

- Cash, cash equivalents, and investments in current assets consist of cash in the County Treasury and in local banks of \$157,753,980 as of June 30, 2018, compared to \$82,531,396 as of June 30, 2017.
- Receivables consist mainly of State and Federal grants, interest, lottery, and State apportionment that were not yet received as of June 30, 2018, in the amount of \$5,740,539 compared to \$4,882,460 as of June 30, 2017.
- Noncurrent restricted investments consist of unspent general obligation bond proceeds for capital improvements and expansion of the District, as well as a deposit held with the State of California on property under eminent domain proceedings. The fair market value of unspent general obligation bond proceeds in noncurrent restricted investments as of June 30, 2018, is \$38,192,760 compared to \$66,801,854 as of June 30, 2017. The decrease resulted from qualified expenditures made during the year.
- Capital assets, net, are the net value of land, buildings, construction, machinery, equipment, vehicles, and works of art, less accumulated depreciation. The breakdown of this total net value can be found in the notes to the financial statements. Net capital assets as of June 30, 2018, amounted to \$361,718,177 compared to \$337,462,006 for fiscal year ending June 30, 2017.
- Accounts payable and accrued liabilities consist of payables to vendors, accrued payroll, and benefits of \$15,069,429 as of June 30, 2018, compared to \$10,554,969 as of June 30, 2017. Accrued interest payable on bonds as of the end of fiscal year June 30, 2018, of \$6,311,188 compared to \$5,148,191 for fiscal year ending June 30, 2017.
- Unearned revenue relates to Federal, State, and local program funds received, but not yet earned, as of the end of the fiscal year June 30, 2018, of \$4,486,069 compared to \$4,445,614 at the end of fiscal year June 30, 2017. Most grant funds are earned when spent, up to the award amount.
- Current and noncurrent liabilities consist of compensated absences liability as of June 30, 2018, in the amount of \$1,215,667 compared to \$1,030,423 as of June 30, 2017, Load banking liability in the amount of \$450,769 as of June 30, 2018, as compared to \$415,142 as of June 30, 2017, PARS supplemental early retirement plan of \$700,203 as of June 30, 2018, compared to \$1,257,530 as of June 30, 2017, and the aggregate net other postemployment benefit liability of \$3,312,989 as of June 30, 2018, compared to \$3,239,017 as of June 30, 2017. The District's aggregate net pension obligation is \$63,515,768 as of June 30, 2018, as compared to \$54,774,883 as of June 30, 2017.
- Bonds payable of \$364,935,000 at June 30, 2018, compared to \$317,955,000 at June 30, 2017, represent general obligation bonds issued under Proposition 39/Measures B and CC for capital improvements and expansion of the District. These bonds are discussed in greater detail in the notes to the financial statements.

DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The Statement of Net Position as of June 30, 2018 and June 30, 2017, is summarized below.

(Amounts in thousands)	2018	(Restated) 2017	Increase (Decrease)	Percent Change
ASSETS				
Current Assets				
Cash and investments	\$ 157,754	\$ 82,531	\$ 75,223	91%
Accounts receivable	5,740	4,883	857	18%
Other current assets	1,496	583	913	157%
Total Current Assets	<u>164,990</u>	<u>87,997</u>	<u>76,993</u>	<u>87%</u>
Noncurrent Assets				
Investments	38,193	76,381	(38,188)	-50%
Capital assets (net)	361,718	337,462	24,256	7%
Total Noncurrent Assets	<u>399,911</u>	<u>413,843</u>	<u>(13,932)</u>	<u>-3%</u>
Total Assets	<u>564,901</u>	<u>501,840</u>	<u>63,061</u>	<u>13%</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	15,118	15,975	(857)	-5%
Deferred outflows of resources related to OPEB	402	-	402	100%
Deferred outflows of resources related to pensions	21,237	13,660	7,577	55%
Total Deferred Outflows of Resources	<u>36,757</u>	<u>29,635</u>	<u>7,122</u>	<u>24%</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	25,884	20,153	5,731	28%
Current portion of long-term debt	16,067	3,577	12,490	349%
Total Current Liabilities	<u>41,951</u>	<u>23,730</u>	<u>18,221</u>	<u>77%</u>
Long-Term Debt	472,201	428,851	43,350	10%
Total Liabilities	<u>514,152</u>	<u>452,581</u>	<u>61,571</u>	<u>14%</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	3,826	2,345	1,481	63%
NET POSITION				
Net investment in capital assets	21,017	42,408	(21,391)	-50%
Restricted	81,102	54,379	26,723	49%
Unrestricted	(18,439)	(20,238)	1,799	-9%
Total Net Position	<u>\$ 83,680</u>	<u>\$ 76,549</u>	<u>\$ 7,131</u>	<u>9%</u>

DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Tuition and fees are generated by the resident, non-resident, and foreign fees paid by students attending the District, including fees such as health fees, parking fees, and other student fees. Regular enrollment fees remained at \$46 per unit in 2017-2018. This rate is established by the State for all community colleges. Enrollment fees are included in the calculation of general apportionment.

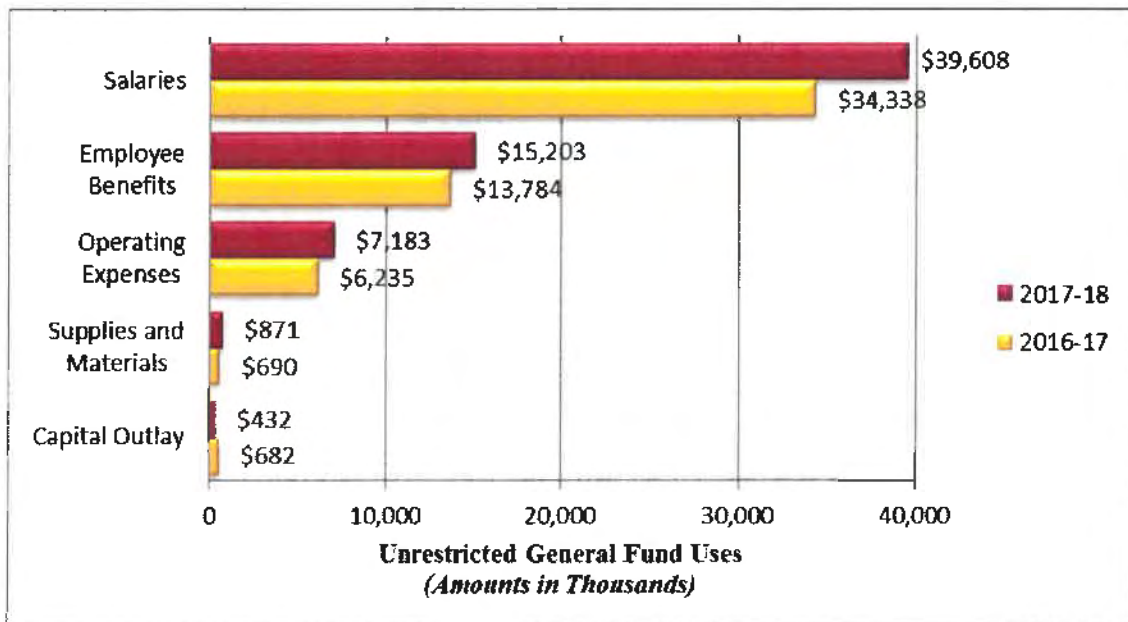
Non-capital grants and contracts are primarily those received from Federal and State sources and used in the instructional program.

State apportionments, non-capital, consists of State apportionment and other apportionments which includes Basic Skills and General Purpose funding. State apportionment represents total general apportionment earned less regular enrollment fees, less property taxes.

Local property taxes increased due to assessed valuations in the Coachella Valley. As noted above, decreases or increases in property tax revenue affect the District's State apportionment revenue. The housing market has shown improvement in the Coachella Valley, as well as in California. Interest rates are still relatively low, thus encouraging some home sales, but the banking industry has tightened lending qualification requirements that have a direct impact on sales.

State revenue in the Unrestricted General Fund consists primarily of one-time mandate reimbursements, the STRS on behalf payments, and State lottery revenue.

The following graph reflects the expenditures of the Unrestricted General Fund for the years ended June 30, 2018 and 2017, respectively.

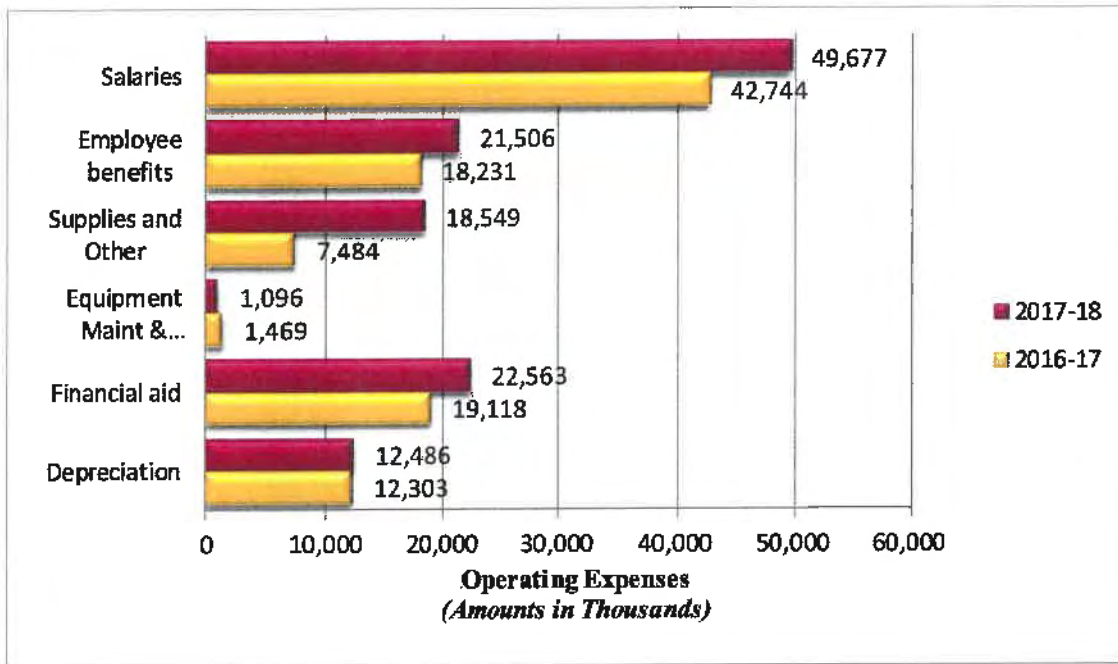


DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The following graph reflects the Operating Expenses of the District for the years ended June 30, 2018 and 2017, respectively.



DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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

(Amounts in thousands)

	2018	2017	Increase (Decrease)	Percent Change
Operating Revenues				
Tuition and fees	\$ 5,270	\$ 5,728	\$ (458)	-8%
Grants and contracts, non capital	16,298	7,786	8,512	109%
Other operating revenue	89	266	(177)	-67%
Total Operating Revenues	<u>21,657</u>	<u>13,780</u>	<u>7,877</u>	<u>57%</u>
Operating Expenses				
Salaries and benefits	71,183	60,975	10,208	17%
Supplies and maintenance	18,549	7,484	11,065	148%
Student financial aid	22,563	19,118	3,445	18%
Equipment and maintenance	1,096	1,469	(373)	-25%
Depreciation	12,486	12,303	183	1%
Total Operating Expenses	<u>125,877</u>	<u>101,349</u>	<u>24,528</u>	<u>24%</u>
Loss on Operations	<u>(104,220)</u>	<u>(87,569)</u>	<u>(16,651)</u>	<u>19%</u>
Nonoperating Revenues (Expenses)				
State apportionments	15,667	10,080	5,587	55%
Property taxes	70,477	51,709	18,768	36%
Financial aid grants, non capital	20,774	18,091	2,683	15%
State revenues	4,678	5,416	(738)	-14%
Net interest expense	(11,101)	(12,723)	1,622	-13%
Other nonoperating revenues, net	9,405	10,515	(1,110)	-11%
Total Nonoperating Revenue	<u>109,900</u>	<u>83,088</u>	<u>26,812</u>	<u>32%</u>
Other Revenues				
State capital income	1,451	5,738	(4,287)	-75%
Net Change in Net Position	<u>\$ 7,131</u>	<u>\$ 1,257</u>	<u>\$ 5,874</u>	<u>467%</u>

DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

STATEMENT OF FUNCTIONAL EXPENSES

(Amounts in thousands)

	Salaries	Employee Benefits	Supplies, Material, and Other Expenses and Services	Equipment Maintenance and Repairs	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 24,211	\$ 10,219	\$ 2,243	\$ -	\$ -	\$ -	\$ 36,673
Academic support	6,961	3,175	1,066	216	-	-	11,418
Student services	6,502	2,456	736	38	-	-	9,732
Plant operations and maintenance	2,186	1,133	3,888	174	-	-	7,381
Instructional support services	6,200	3,065	4,386	561	-	-	14,212
Community services and economic development	667	290	808	-	-	-	1,765
Ancillary services and auxiliary operations	2,922	1,167	4,968	107	-	-	9,164
Physical property and related acquisitions	28	1	454	-	-	-	483
Student aid	-	-	-	-	22,563	-	22,563
Unallocated depreciation	-	-	-	-	-	12,486	12,486
Total	\$ 49,677	\$ 21,506	\$ 18,549	\$ 1,096	\$ 22,563	\$ 12,486	\$ 125,877

STATEMENT OF CASH FLOWS

(Amounts in thousands)

	2018	2017	Increase (Decrease)	Percent Change
Cash Provided by (Used in)				
Operating activities	\$ (91,539)	\$ (79,763)	\$ (11,776)	15%
Noncapital financing activities	93,626	88,257	5,369	6%
Capital financing activities	43,130	(18,607)	61,737	-332%
Investing activities	30,006	567	29,439	5192%
Net Change in Cash	75,223	(9,546)	84,769	-888%
Cash, Beginning of Year	82,531	92,077	(9,546)	-10%
Cash, End of Year	\$ 157,754	\$ 82,531	\$ 75,223	91%

The primary cash receipts from operating activities consist of student fees. The primary cash outlays include payment of wages, supplies, student financial aid, and contracts.

The general apportionment is the primary source of non-capital financing. The two main components of general apportionment are State apportionment and property taxes. Non-operating receipts also include Federal and State grants.

The main financing activities are purchases of capital assets (land, buildings, and equipment).

Cash from investing activities is interest on investments.

DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CAPITAL ASSETS

As of June 30, 2018, the District had over \$361.7 million in net capital assets. Total capital assets of approximately \$466.3 million consist of land, buildings, construction in progress, site improvements, equipment and vehicles, and works of art. These assets have accumulated depreciation of approximately \$104.6 million. Net capital asset additions of approximately \$36.7 million occurred during 2017-2018, and depreciation expense of approximately \$12.5 million was recorded for the year.

Capital additions were primarily funded by bond proceeds and redevelopment for improvement of facility infrastructure.

Note 6 in the financial statements provides additional information on capital assets. A summary of capital assets is presented below.

(Amounts in thousands)	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land, works of art, and construction in progress	\$ 44,734	\$ 31,464	\$ (25)	\$ 76,173
Buildings and improvements	368,968	3,687	-	372,655
Furniture and equipment	15,918	1,616	-	17,534
Subtotal	429,620	36,767	(25)	466,362
Accumulated depreciation	(92,158)	(12,486)	-	(104,644)
	<u>\$ 337,462</u>	<u>\$ 24,281</u>	<u>\$ (25)</u>	<u>\$ 361,718</u>

DEBT ADMINISTRATION

As of June 30, 2018, the District had \$419.0 million in debt from general obligation bonds consisting of \$364.9 million of debt and \$54.1 million premium on debt allocated over the life of the bond. The general obligation bonds were issued to fund renovation of the Palm Desert campus buildings and infrastructure, along with land acquisition for the Eastern and Western Valley satellite campuses. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds.

DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Note 10 in the financial statements provides additional information on long-term obligations. A summary of long-term obligations is presented below.

(Amounts in thousands)	Balance Beginning of Year, as restated	Additions	Deletions	Balance End of Year
General obligation bonds	\$ 371,711	\$ 53,471	\$ (6,109)	\$ 419,073
Compensated absences	1,030	185	-	1,215
PARS supplemental early retirement plan	1,258	-	(557)	701
Load banking	415	36	-	451
Aggregate net OPEB liability	3,239	117	(43)	3,313
Aggregate net pension obligation	54,775	8,741	-	63,516
Total Long-Term Debt	<u>\$ 432,428</u>	<u>\$ 62,550</u>	<u>\$ (6,709)</u>	<u>\$ 488,269</u>
Amount due within one year				<u>\$ 16,067</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The 2017-2018 Desert Community College District budget was developed with input from the Budget Sub-committee. Revenue projections included conservative projections received from the Chancellor's Office and other agencies. The Budget Sub-committee continued to review and monitor changes throughout the year.

Proposition 30, The Schools and Local Public Safety Protection Act of 2012, passed in November 2012. This proposition temporarily raises the State sales and use tax by a quarter-cent for four years and the personal income taxes on those high income earners (\$250,000 for individuals and \$500,000 for couples) for seven years to provide continuing funding for the local school districts and community colleges. The Education Protection Account (EPA) is created in the General Fund to receive and disburse these temporary tax revenues.

Due to the prudent actions taken in 2012-2013, the District provided resources to students and staff while maintaining a 7.5 percent Unrestricted General Fund. The semi-restricted retiree health insurance fund was established in 2005-2006 with funds from the General Fund toward the unfunded liabilities. The District invested approximately 50 percent of the balances from the semi-restricted retiree health insurance fund in an irrevocable trust in 2015-2016. Management continues to closely monitor the liabilities related to retiree benefits. The Other Postemployment Benefit Trust Fund was established to ensure the commitments toward this liability are sufficient. This irrevocable fund, together with the semi-restricted internal service fund, have enough funding to cover the current actuarial liability as identified in the June 2018 Actuarial Report.

DESERT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

ECONOMIC FACTORS AFFECTING THE FUTURE OF THE DESERT COMMUNITY COLLEGE DISTRICT

The District's economic position is closely tied to the State of California as State apportionments and property taxes represent approximately 65 percent of the total revenue within the Unrestricted General Fund. The State economy continues to improve and has provided additional funding. The District continues to monitor enrollment and operating costs of the District to ensure ongoing financial stability and retain the reserve levels required by Board Policy and the State Chancellor's Office.

Capital improvement expenditures continue to be possible due to the passage of General Obligation Bond Measures B and CC. During 2018-2019, these funds will accommodate the planning and construction of projects as mentioned below:

- Hilb Library and Building C renovations, and updating of classrooms.
- Indio Expansion including architectural planning for a new educational building adjacent to the existing facility.
- West Valley Palm Springs architectural design and planning.

In new construction, the Desert Community College District has focused on conservation, building 'smart' facilities with the latest energy reduction and indoor environmental quality technologies and water reduction features. The features will lead to the achievement of Leadership in Energy and Environmental Design (LEED) certificate ratings.

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 Fiscal Services at Desert Community College District, 43-500 Monterey Avenue, Palm Desert, California 92260.

DESERT COMMUNITY COLLEGE DISTRICT

**STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2018**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 10,196,702
Investments	147,557,278
Accounts receivable	5,740,539
Prepaid expenses	1,495,660
Total Current Assets	<u>164,990,179</u>
Noncurrent Assets	
Restricted investments - noncurrent portion	38,192,760
Nondepreciable capital assets	76,172,816
Depreciable capital assets, net of depreciation	285,545,361
Total Noncurrent Assets	<u>399,910,937</u>
TOTAL ASSETS	<u>564,901,116</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	15,118,633
Deferred outflows of resources related to pensions	21,236,862
Deferred outflows of resources related to OPEB	401,715
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>36,757,210</u>
LIABILITIES	
Current Liabilities	
Accounts payable	15,069,429
Interest payable	6,311,188
Due to fiduciary funds	16,966
Unearned revenue	4,486,069
Bonds payable - current portion	15,510,000
PARS supplemental early retirement plan - current portion	557,326
Total Current Liabilities	<u>41,950,978</u>
Noncurrent Liabilities	
Compensated absences liability	1,215,667
Load banking liability	450,769
Bonds payable - noncurrent portion	349,425,000
Bond premiums	54,138,319
Aggregate net OPEB liability	3,312,989
PARS supplemental early retirement plan - noncurrent portion	142,877
Aggregate net pension obligation	63,515,768
Total Noncurrent Liabilities	<u>472,201,389</u>
TOTAL LIABILITIES	<u>514,152,367</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	3,825,860
NET POSITION	
Net investment in capital assets	21,017,129
Restricted for:	
Debt service	34,995,313
Capital projects	43,742,166
Educational programs	2,364,336
Unrestricted	(18,438,845)
TOTAL NET POSITION	<u>\$ 83,680,099</u>

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

DESERT COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES

Student Tuition and Fees	\$ 13,223,513
Less: Scholarship discount and allowance	(7,953,712)
Net tuition and fees	<u>5,269,801</u>
Grants and Contracts, Noncapital	
Federal	4,027,991
State	11,973,577
Local	<u>297,099</u>
Total grants and contracts, noncapital	<u>16,298,667</u>
Other Operating Revenues	<u>88,598</u>
TOTAL OPERATING REVENUES	<u>21,657,066</u>

OPERATING EXPENSES

Salaries	49,677,310
Employee benefits	21,506,234
Supplies, materials, and other operating expenses and services	18,548,765
Equipment, maintenance, and repairs	1,096,424
Student financial aid	22,562,758
Depreciation	<u>12,486,060</u>
TOTAL OPERATING EXPENSES	<u>125,877,551</u>

OPERATING LOSS

(104,220,485)

NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	15,667,360
Local property taxes, levied for general purposes	39,240,266
Taxes levied for other specific purposes	31,237,110
Federal financial aid grants, noncapital	18,436,497
State financial aid grants, noncapital	2,337,665
Other State revenues	4,678,474
Investment income	1,468,861
Interest expense on capital related debt	(12,738,665)
Investment income on capital asset-related debt, net	167,910
Transfer to fiduciary funds	(20,000)
Other nonoperating revenue, net	<u>9,425,259</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>109,900,737</u>

INCOME BEFORE OTHER REVENUES

5,680,252

OTHER REVENUES

State revenues, capital	<u>1,451,484</u>
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CHANGE IN NET POSITION

7,131,736

NET POSITION, BEGINNING OF YEAR, AS RESTATED

76,548,363

NET POSITION, END OF YEAR

\$ 83,680,099

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

DESERT COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 5,138,836
Federal and State grants and contracts	15,416,040
Payments to vendors for supplies and services	(19,725,241)
Payments to or on behalf of employees	(69,037,229)
Payments to students for scholarships and grants	(22,562,758)
Other operating receipts	88,598
Net Cash Flows From Operating Activities	(90,681,754)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	15,667,360
Federal and State financial aid grants	21,515,194
Property taxes - nondebt related	39,240,266
State taxes and other apportionments	4,678,474
Other nonoperating	11,666,715
Net Cash Flows From Noncapital Financing Activities	92,768,009

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(26,368,769)
State revenue, capital projects	1,451,484
Property taxes - related to capital debt	31,237,110
Principal paid on capital debt	(6,109,617)
Proceeds from capital debt	53,471,544
Interest paid on capital debt	(10,719,704)
Interest received on capital debt	167,910
Net Cash Flows From Capital Financing Activities	43,129,958

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	28,609,094
Interest received from investments	1,397,277
Net Cash Flows From Investing Activities	30,006,371

NET CHANGE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	82,531,396
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 157,753,980

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

DESERT COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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

Operating Loss	<u>\$ (104,220,485)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation	12,486,060
Changes in Assets, Liabilities, Deferred Inflows, and Deferred Outflows of Resources:	
Accounts receivable	(313,015)
Prepaid expenses	(912,959)
Accounts payable and accrued liabilities	998,071
Unearned revenue	(700,577)
Compensated absences liability	185,244
Load banking liability	35,627
Deferred outflows of resources related to pension	(7,576,705)
Deferred outflows of resources related to OPEB	(401,715)
Deferred inflows of resources related to pension	1,481,170
PARS supplemental early retirement plan	(557,327)
Aggregate net Other postemployment benefit (OPEB) liability	73,972
Aggregate net pension obligation	<u>8,740,885</u>
Total Adjustments	<u>13,538,731</u>
Net Cash Flows From Operating Activities	<u>\$ (90,681,754)</u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 10,196,702
Cash in county treasury	<u>147,557,278</u>
Total Cash and Cash Equivalents	<u>\$ 157,753,980</u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u>\$ 1,769,213</u>
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The accompanying notes are an integral part of these financial statements.

DESERT COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Retiree OPEB Trust	Other Trust Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 101,738
Investments	3,565,317	100,504
Accounts receivable	-	224
Due from primary government	-	16,966
Total Assets	<u>3,565,317</u>	<u>219,432</u>
 LIABILITIES		
Accounts payable	<u>-</u>	<u>2,643</u>
 NET POSITION		
Restricted for postemployment benefits other than pensions	3,565,317	-
Unrestricted	<u>-</u>	<u>216,789</u>
Total Net Position	<u>\$ 3,565,317</u>	<u>\$ 216,789</u>

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

DESERT COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Retiree OPEB Trust	Other Trust Funds
	<u> </u>	<u> </u>
ADDITIONS		
Local revenues	\$ 274,391	\$ 117,345
DEDUCTIONS		
Classified salaries	-	47,006
Employee benefits	-	12,638
Books and supplies	-	93,085
Services and operating expenditures	2,252	8,406
Total Deductions	<u>2,252</u>	<u>161,135</u>
OTHER FINANCING SOURCES		
Transfer from primary government	-	20,000
CHANGE IN NET POSITION	272,139	(23,790)
NET POSITION, BEGINNING OF YEAR	<u>3,293,178</u>	<u>240,579</u>
NET POSITION, END OF YEAR	<u>\$ 3,565,317</u>	<u>\$ 216,789</u>

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

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - ORGANIZATION

Desert Community College District (the District) was established in 1958 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, and capital project funds, but these budgets are managed at the department level. Currently, the District is a single college with three offsite locations located in the Palm Springs Mecca, Indio, Riverside County. 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. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

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. Management has reviewed the following potential component units and has determined the established criteria has not been met, and the financial activity has been excluded from the District's reporting entity:

College of the Desert Foundation - The Foundation is a separate not-for-profit corporation. The Board of Directors is elected by their own Board and independent of any District Board of Trustees appointments. The Board is responsible for approving its own audit and accounting and finance related activities.

College of the Desert Alumni Association - The Association is a separate not-for-profit corporation. The Board of Directors is elected by their own Board and independent of any District Board of Trustees appointments. The Board is responsible for approving its own audit and accounting and finance related activities.

Desert Community College District Auxiliary Services - The Auxiliary is a separate not-for-profit corporation. The Board of Directors is elected by their own Board and independent of any District Board of Trustees appointments. The Board is responsible for approving its own audit and accounting and finance related activities.

Desert College Financing Corp. - The Financing Corp. is a separate 501(c)(4), non-profit, public benefit corporation. The Board of Directors is governed by its own Board and independent of any District Board of Trustees appointments. The Board is responsible for its own accounting and finance related activities.

Separate financial statements for the above organizations can be obtained directly from the organizations.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, No. 38, and No. 39. This presentation provides a comprehensive government-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements. 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.

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 noncapital grants and contracts.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, Federal and State financial aid 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 financial aid grants 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 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, No. 38, No. 39, and No. 61. The business-type activities model followed by the District requires the following components of the District's financial statements:

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

- 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:
 - Statements of Fiduciary Net Position
 - Statements of Changes in Fiduciary Net Position
- Notes to the Financial Statements

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. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2018, are stated at fair value. Fair value is estimated based on quoted market prices at year end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

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 laws to be set aside by the District for the purpose of satisfying certain requirements.

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 does not record an allowance for uncollectible accounts because collectability of the receivables from such sources is probable. When receivables are determined to be uncollectible, a direct write-off is recorded. Management has analyzed these accounts and believes all accounts are fully collectible.

Prepaid Expenses

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

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, leasehold 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. The District does not possess any infrastructure. 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.

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, 25 to 50 years; improvements, 25 to 50 years; equipment, 5 to 10 years; vehicles, 5 to 10 years. Works of art are considered inexhaustible and are not depreciated.

Accrued Liabilities and Long-Term Obligations

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

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.

Deferred Charges on Refunding

Deferred charges on refunding are amortized using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

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 government-wide financial statements. The current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid within the fund from which the employees who have accumulated the leave are paid. The liability for this benefit is reported on the government-wide financial statements.

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.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 revenue includes (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.

Noncurrent Liabilities

Noncurrent liabilities include bonds payable, bond premiums, compensated absences, PARS supplemental early retirement plan, load banking liability, aggregate net OPEB liability, and the aggregate net pension obligation 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 invested 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 government-wide financial statements report \$81,101,815 of restricted net position.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and No. 35. Classifications are as follows:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances, and Federal, State, and local grants and contracts.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as State apportionments, property taxes, investment income, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and No. 35.

Classification of Expenses - Nearly all of the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

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.

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 Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed General Obligation Bonds in March 2004 and November 2016 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected as noted above and remitted to the District when collected.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Scholarships, Discounts, and Allowances

Student tuition and fee revenue is reported net of scholarships, discounts, and allowances. Fee waivers approved by the Board of Governors are included within the scholarships, discounts, and allowances 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.

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

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.

Inter-Fund Activity

Inter-fund transfers and inter-fund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

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

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

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

New Accounting Pronouncements

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

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

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

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

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the District's investment policy.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, consist of the following:

Primary government	\$ 195,946,740
Fiduciary funds	3,767,559
Total Deposits and Investments	<u>\$ 199,714,299</u>
Cash on hand and in banks	\$ 10,283,440
Cash in revolving	15,000
Cash in county	147,596,947
Investments	41,818,912
Total Deposits and Investments	<u>\$ 199,714,299</u>

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 Riverside County Pooled Investment Fund and certificate of deposits evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District maintains an investment of \$147,596,947 with the Riverside County Pooled Investment Fund with a weighted maturity of 427 days. In addition, the District also has an investment of \$38,192,760 in Federated Investors Tax Free Obligations. Also, the District has investments of \$3,565,317 and \$60,835 in Mutual Funds and Certificates of Deposits, respectively, that have maturities over three months, but less than one year at time of purchase.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Riverside County Pooled Investment Fund, Certificates of Deposits, and Federated Investors Tax Free Obligations are not required to be rated. The District's investment in the Riverside County Pooled Investment Fund and Federated Investors Tax Free Obligations was rated Aaa-bf and VMIG 1, respectively, by Moody's Investors Services. The District's investments in Certificates of Deposits and Mutual Funds have not been rated as of June 30, 2018.

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. 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 agency. 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, 2018, the District had \$491,833 exposed to custodial credit risk.

NOTE 4 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Riverside County Pooled Investment Fund are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Uncategorized
Riverside County Pooled Investment Fund	\$ 146,768,089	\$ -	\$ -	\$146,768,089
Federated Inv Tax Free Obligations	38,192,760	38,192,760	-	-
Mutual Funds	3,565,317	-	3,565,317	-
Certificates of Deposits	60,835	60,835	-	-
Total	<u>\$ 188,587,001</u>	<u>\$ 38,253,595</u>	<u>\$ 3,565,317</u>	<u>\$ 146,768,089</u>

All assets have been valued using a market approach, with quoted market prices.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Federal Government		
Categorical aid	\$ 1,128,617	\$ -
State Government		
Categorical aid	892,107	-
Lottery	399,528	-
Local Sources		
Property taxes	990,369	-
District Foundation	198,617	-
Enrollment fees	818,396	-
Interest	249,171	224
Other local sources	1,063,734	-
Total	<u>\$ 5,740,539</u>	<u>\$ 224</u>

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2018, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 12,292,301	\$ 22,572,539	\$ -	\$ 34,864,840
Construction in progress	31,917,580	8,891,826	25,430	40,783,976
Works of art	524,000	-	-	524,000
Total Capital Assets Not Being Depreciated	<u>44,733,881</u>	<u>31,464,365</u>	<u>25,430</u>	<u>76,172,816</u>
Capital Assets Being Depreciated				
Land improvements	97,536,405	1,898,759	-	99,435,164
Buildings and improvements	271,432,149	1,788,121	-	273,220,270
Furniture and equipment	15,917,963	1,616,416	-	17,534,379
Total Capital Assets Being Depreciated	<u>384,886,517</u>	<u>5,303,296</u>	<u>-</u>	<u>390,189,813</u>
Total Capital Assets	<u>429,620,398</u>	<u>36,767,661</u>	<u>25,430</u>	<u>466,362,629</u>
Less Accumulated Depreciation				
Land improvements	31,634,747	4,783,265	-	36,418,012
Buildings and improvements	52,146,897	6,451,884	-	58,598,781
Furniture and equipment	8,376,748	1,250,911	-	9,627,659
Total Accumulated Depreciation	<u>92,158,392</u>	<u>12,486,060</u>	<u>-</u>	<u>104,644,452</u>
Net Capital Assets	<u>\$337,462,006</u>	<u>\$ 24,281,601</u>	<u>\$ 25,430</u>	<u>\$361,718,177</u>

Depreciation expense for the year was \$12,486,060.

NOTE 7 - ACCOUNTS PAYABLE

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

	Primary Government	Fiduciary Funds
Apportionment	\$ 10,864,179	\$ -
Construction	2,470,939	-
Accrued payroll	359,148	2,076
Other	1,375,163	567
Total	<u>\$ 15,069,429</u>	<u>\$ 2,643</u>

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	<u>Primary Government</u>
Federal financial assistance	\$ 77,984
State categorical aid	2,966,821
Enrollment fees	1,421,763
Other local	19,501
Total	<u>\$ 4,486,069</u>

NOTE 9 - INTER-FUND TRANSACTIONS

Inter-Fund Receivables and Payables (Due To/Due From)

Inter-fund receivable and payable balances arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed. Inter-fund activity within the primary government 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, 2018, the amount owed by the primary government to the fiduciary funds was \$16,966.

Inter-Fund 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 2018 fiscal year, the amount transferred to the fiduciary funds from the primary government amounted to \$20,000.

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2018 fiscal year consisted of the following:

	Balance as restated, July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
Bonds Payable					
General obligation bonds	\$ 317,955,000	\$ 50,000,000	\$ 3,020,000	\$ 364,935,000	\$ 15,510,000
Premium on debt	53,756,392	3,471,544	3,089,617	54,138,319	-
Total Bonds Payable	<u>371,711,392</u>	<u>53,471,544</u>	<u>6,109,617</u>	<u>419,073,319</u>	<u>15,510,000</u>
Other Liabilities					
Compensated absences	1,030,423	185,244	-	1,215,667	-
PARS supplemental early retirement plan	1,257,530	-	557,327	700,203	557,326
Load banking liability	415,142	35,627	-	450,769	-
Aggregate net OPEB liability	3,239,017	117,077	43,105	3,312,989	-
Aggregate net pension obligation	54,774,883	8,740,885	-	63,515,768	-
Total Other Obligations	<u>60,716,995</u>	<u>9,078,833</u>	<u>600,432</u>	<u>69,195,396</u>	<u>557,326</u>
Total Long-Term Obligations	<u>\$ 432,428,387</u>	<u>\$ 62,550,377</u>	<u>\$ 6,710,049</u>	<u>\$ 488,268,715</u>	<u>\$ 16,067,326</u>

Description of Debt

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local property taxes.

The compensated absences liability will be paid by the fund for which the employee worked. At June 30, 2018, the balance outstanding was \$1,215,667.

The District has entered into two PARS Supplemental Early Retirement Plans for employees retiring as of June 30, 2014 and June 30, 2015. The District will pay the liability over five-year periods for each agreement from the unrestricted General Fund. The outstanding balance as of June 30, 2018, was \$700,203.

The load banking liability will be paid by the fund for which the employee worked. At June 30, 2018, the balance outstanding was \$450,769.

The aggregate net OPEB liability will be paid out of the Self Insurance Fund. At June 30, 2018, the balance outstanding was \$3,312,989. See Note 11 for additional information on the District's aggregate net OPEB liability.

DESERT COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2018

The aggregate net pension obligation will be paid by the fund for which the employee is currently working. At June 30, 2018, the balance outstanding was \$63,515,768. See Note 13 for additional information on the aggregate net pension obligation.

Bonded Debt

On March 2, 2004, \$346 million in general obligation bonds were authorized by an election held within the District under Proposition 39/Measure B. These bonds are issued in multiple series as general obligations of the District. The following information is provided for purposes of additional analysis only.

In April 2015, the District issued 2015 General Obligation Refunding Bonds. These bonds were issued in the amount of \$38,690,000. A portion of the bond proceeds was deposited into the District's Bond Fund to be used for the District's project list. The rest of the proceeds were deposited into an escrow account to: (1) advance refund and defease portions of the District's outstanding bond obligations, (2) pay the debt service on the Refunded Bonds, including principal, and (3) pay all legal, financial, and contingent costs in connection with the issuance of the bonds.

In February 2016, the District issued 2016 General Obligation Refunding Bonds. These bonds were issued in the amount of \$158,130,000. A portion of the bond proceeds was deposited into the District's Bond Fund to be used for the District's project list. The rest of the proceeds were deposited into an escrow account to: (1) advance refund and defease portions of the District's outstanding bond obligations, (2) pay the debt service on the Refunded Bonds, including principal, and (3) pay all legal, financial, and contingent costs in connection with the issuance of the bonds.

In April 2017, the District issued the 2017 General Obligation Refunding Bonds in the amount of \$125,305,000. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the Statement of Net Position and are amortized to interest expense over the life of the liability. The refunding resulted in an economic savings of \$205,984,010 based on the difference between the present value of the existing debt service requirements and the new debt service requirements. The net proceeds from the issuance were used to advance refund, on a crossover basis, the outstanding balance of the District's outstanding 2007 General Obligation Bonds, Series C, and pay the costs associated with the issuance of the bonds.

On November 8, 2016, \$577,866,000 in general obligation bonds were authorized by an election held within the District under Proposition 39/Measure CC. These bonds are issued in multiple series as general obligations of the District. The following information is provided for purposes of additional analysis only.

In June 2018, Series 2018 general obligation bonds in the amount of \$50,000,000 were sold. The proceeds from the sale of the bonds will generally be used to finance the construction, acquisition, furnishing, and equipping of District facilities.

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Debt Maturity

General Obligation Bonds

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 1, 2017	Issued	Redeemed	Outstanding June 30, 2018
2015 Refunding	4/2015	8/1/2024	2.00%-5.00%	\$ 38,690,000	\$ 35,285,000	\$ -	\$ 3,020,000	\$ 32,265,000
2016 Refunding	2/2016	8/1/2037	5.00%	158,130,000	157,365,000	-	-	157,365,000
2017 Refunding	4/2017	8/1/2039	2.00%-5.00%	125,305,000	125,305,000	-	-	125,305,000
2018 Series	6/2018	8/1/2043	3.00%-5.00%	50,000,000	-	50,000,000	-	50,000,000
					<u>\$ 317,955,000</u>	<u>\$ 50,000,000</u>	<u>\$ 3,020,000</u>	<u>\$ 364,935,000</u>

General Obligation Bond - 2015 Refunding

The bonds mature through 2025 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	\$ 3,330,000	\$ 1,476,400	\$ 4,806,400
2020	3,695,000	1,335,900	5,030,900
2021	4,075,000	1,160,125	5,235,125
2022	4,530,000	945,000	5,475,000
2023	5,015,000	706,375	5,721,375
2024-2025	11,620,000	595,000	12,215,000
Total	<u>\$ 32,265,000</u>	<u>\$ 6,218,800</u>	<u>\$ 38,483,800</u>

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

General Obligation Bond - 2016 Refunding

The bonds mature through 2038 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ -	\$ 7,868,250	\$ 7,868,250
2020	-	7,868,250	7,868,250
2021	-	7,868,250	7,868,250
2022	-	7,868,250	7,868,250
2023	-	7,868,250	7,868,250
2024-2028	14,340,000	38,313,750	52,653,750
2029-2033	44,700,000	31,454,750	76,154,750
2034-2038	98,325,000	14,786,375	113,111,375
Total	<u>\$ 157,365,000</u>	<u>\$ 123,896,125</u>	<u>\$ 281,261,125</u>

General Obligation Bond - 2017 Refunding

The bonds mature through 2040 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ 180,000	\$ 5,733,800	\$ 5,913,800
2020	600,000	5,723,000	6,323,000
2021	1,050,000	5,693,000	6,743,000
2022	1,485,000	5,642,300	7,127,300
2023	2,000,000	5,562,600	7,562,600
2024-2028	22,900,000	25,230,500	48,130,500
2029-2033	32,400,000	17,153,000	49,553,000
2034-2038	16,000,000	10,138,000	26,138,000
2039-2040	48,690,000	1,981,600	50,671,600
Total	<u>\$ 125,305,000</u>	<u>\$ 82,857,800</u>	<u>\$ 208,162,800</u>

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

General Obligation Bond – 2018 Series

The bonds mature through 2044 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ 12,000,000	\$ 204,472	\$ 12,204,472
2020	8,000,000	1,805,000	9,805,000
2021	1,500,000	1,485,000	2,985,000
2022	-	1,425,000	1,425,000
2023	-	1,425,000	1,425,000
2024-2028	795,000	7,094,500	7,889,500
2029-2033	3,595,000	6,633,500	10,228,500
2034-2038	7,110,000	5,410,500	12,520,500
2039-2043	13,445,000	3,057,500	16,502,500
2044	3,555,000	177,750	3,732,750
Total	\$ 50,000,000	\$ 28,718,222	\$ 78,718,222

PARS Supplemental Early Retirement Plan

The District will pay the obligation as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2019	\$ 557,326
2020	142,877
Total	\$ 700,203

NOTE 11 - AGGREGATE NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY

Aggregate Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported aggregate net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>OPEB Expense</u>
District Plan	\$ 3,010,111	\$ 401,715	\$ 117,077
Medicare Premium Payment (MPP) Program	302,878	-	(43,105)
Total	\$ 3,312,989	\$ 401,715	\$ 73,972

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The details of each plan are as follows:

District Plan

Plan Administration

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

Management of the plan is vested in the District management. Management of the trustee assets is vested with Self-Insured Schools of California (SISC).

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	24
Active employees	330
	<hr/>
	354

Retiree Health Benefit OPEB Trust

The Retiree Health Benefit OPEB Trust (the Trust) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by the Self Insured Schools of California (SISC), a Joint Powers Agency (the JPA), as directed by the investment alternative choice selected by the District. The District retains the responsibility to oversee the management of the Trust, including the requirement that investments and assets held within the Trust continually adhere to the requirements of the California *Government Code* Section 53600.5 which specifies that the trustee's primary role is to preserve capital, to maintain investment liquidity, and to protect investment yield. As such, the District acts as the fiduciary of the Trust. The financial activity of the Trust has been discretely presented. Separate financial statements are not prepared for the Trust.

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2016-2017, the District contributed \$401,715 to the Plan of which all were used for current premiums

Investment

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the District to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity Investments	80%
Fixed Income	20%

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 8.38 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability of the District

The District's net OPEB liability of \$3,010,111 was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2017, were as follows:

Total OPEB liability	\$ 6,302,940
Plan fiduciary net position	(3,292,829)
District's net OPEB liability	<u>\$ 3,010,111</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>52.24%</u>

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	7.00 percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	4.00 percent for 2017

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, (see the discussion of the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity Investments	7.5%
Fixed Income	5.0%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2016	\$ 5,837,506	\$ 2,944,472	\$ 2,893,034
Service cost	457,066	-	457,066
Interest	410,083	-	410,083
Contributions - employer	-	401,715	(401,715)
Net investment income	-	351,417	(351,417)
Benefit payments	(401,715)	(401,715)	-
Administrative expense	-	(3,060)	3,060
Net change in total OPEB liability	<u>465,434</u>	<u>348,357</u>	<u>117,077</u>
Balance at June 30, 2017	<u>\$ 6,302,940</u>	<u>\$ 3,292,829</u>	<u>\$ 3,010,111</u>

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

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

Discount Rate	Net OPEB Liability
1% decrease (6.0%)	\$ 3,389,020
Current discount rate (7.0%)	3,010,111
1% increase (8.0%)	2,663,756

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using health care cost trend rates that are one percent lower or higher than the current health care costs trend rates:

Health Care Cost Trend Rates	Net OPEB Liability
1% decrease (3.0%)	\$ 2,686,290
Current discount rate (4.0%)	3,010,111
1% increase (5.0%)	3,337,320

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$117,077. At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to measurement date of \$401,715.

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

Contributions

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District contributions. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

OPEB Liabilities and OPEB Expense Related to the OPEB

At June 30, 2018, the District reported a liability of \$302,878 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating community college districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.0720 percent and 0.0739, respectively, resulting in a net decrease in the proportionate share of 0.0019 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(43,105).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016, was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 2, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 335,307
Current discount rate (3.58%)	302,878
1% increase (4.58%)	271,333

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 273,696
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	302,878
1% increase (4.7% Part A and 5.1% Part B)	331,767

NOTE 12 - RISK MANAGEMENT

Property and Liability Insurance Coverages

The District is exposed to various risks of loss related to torts and liability; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District obtains coverage for these risks as a member of various joint powers authorities or through the purchase of coverage from a risk retention group. The District uses Schools Association for Excess Risk (SAFER) for excess property limits of \$250,000,000 per occurrence, with no aggregate and a \$5,000 member retained limit. Then, their excess liability has the first \$1,000,000 worth of coverage through the Statewide Association of Community Colleges (SWACC) and \$24,000,000 excess coverage of \$1,000,000 is in SAFER with a \$10,000 Member Retained Limit.

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2018, the District contracted with SWACC Joint Powers Authority (JPA) 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.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Workers' Compensation

For fiscal year 2017-2018, the District participated in the Protected Insurance Programs for Schools (PIPS) JPA, an insurance purchasing pool, as a member of the Riverside Schools Risk Management Authority (RSRMA) JPA. 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 saving. 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.

<u>Insurance Program / JPA Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Protected Insurance Program for Schools (PIPS)	Workers' Compensation	\$ 150,000,000
Schools Association For Excess Risk (SAFER)	Excess Liability	24,000,000
Statewide Association of Community Colleges (SWACC)	Property and Liability	244,750,000

Employee Medical Benefits

The District has contracted with Self Insured Schools of California (SISC) to provide employee medical benefits through Blue Shield. The District provides health and welfare benefits to all full-time and permanent part-time employees that work more than 30 hours a week. The District's contract requires 100 percent participation in the District's medical and dental plans.

Medical - The employee has a choice of four plans with Blue Shield. The employee may elect to change plans once per year during open enrollment. Normally, such election shall be effective October 1 of each year.

Dental - The employee has a choice of Delta Dental or Anthem Dental Net insurance coverage and is provided by the District. All employees shall participate in the program.

Life Insurance - The District provides a \$50,000 group term life insurance policy by Anthem Life. All employees participate in this life insurance program.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS, and classified employees are members of CalPERS.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the fiscal year ended June 30, 2018, the District reported the net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 36,775,058	\$ 11,970,803	\$ 3,509,524	\$ 3,793,392
CalPERS	26,740,710	9,266,059	316,336	5,183,361
Total	<u>\$ 63,515,768</u>	<u>\$ 21,236,862</u>	<u>\$ 3,825,860</u>	<u>\$ 8,976,753</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

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

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the District's total contributions were \$3,743,087.

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

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

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 36,775,058
State's proportionate share of net pension liability associated with the District	<u>21,755,813</u>
Total	<u>\$ 58,530,871</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.0398 percent and 0.0416 percent, respectively, resulting in a net decrease in the proportionate share of 0.0018 percent.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$3,793,392. In addition, the District recognized pension expense and revenue of \$2,189,932 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,743,087	\$ -
Net change in proportionate share of net pension liability	1,278,709	1,888,685
Difference between projected and actual earnings on pension plan investments	-	979,422
Difference between expected and actual experience in the measurement of the total pension liability	135,998	641,417
Changes of assumptions	6,813,009	-
Total	<u>\$ 11,970,803</u>	<u>\$ 3,509,524</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earning on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (814,230)
2020	616,131
2021	88,843
2022	<u>(870,166)</u>
Total	<u>\$ (979,422)</u>

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 896,879
2020	896,879
2021	896,879
2022	896,880
2023	1,148,603
Thereafter	961,494
Total	<u>\$ 5,697,614</u>

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 53,997,460
Current discount rate (7.10%)	36,775,058
1% increase (8.10%)	22,797,911

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the total District contributions were \$2,588,316.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$26,740,710. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.1120 percent and 0.1071 percent, respectively, resulting in a net increase in the proportionate share of 0.0049 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$5,183,361. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,588,316	\$ -
Net change in proportionate share of net pension liability	888,786	1,497
Difference between projected and actual earnings on pension plan investments	925,046	-
Difference between expected and actual experience in the measurement of the total pension liability	958,010	-
Changes of assumptions	3,905,901	314,839
Total	<u>\$ 9,266,059</u>	<u>\$ 316,336</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	Deferred Outflows/(Inflows) <u>of Resources</u>
2019	\$ (25,065)
2020	1,067,302
2021	389,363
2022	(506,554)
Total	<u>\$ 925,046</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the EARSL of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	Deferred Outflows/(Inflows) <u>of Resources</u>
2019	\$ 1,951,518
2020	1,948,238
2021	1,536,605
Total	<u>\$ 5,436,361</u>

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and services

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 39,344,154
Current discount rate (7.15%)	26,740,710
1% increase (8.15%)	16,285,098

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.20 percent of an employee's gross earnings. An employee is required to contribute 6.20 percent of his or her gross earnings to the pension plan.

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 year ended June 30, 2018, which amounted to \$1,769,213 (9.328 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 year ended June 30, 2018. 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 operating revenue and employee benefit expense.

Deferred Compensation

The District offers its employees a CalPERS administered 457 Deferred Compensation Program (the Program). The Program, available to all permanent employees, permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The CalPERS Board controls the investment and administrative functions of the CalPERS 457 Deferred Compensation Program. The Board for the exclusive benefit of participating employees, which adds security, holds the assets in trust.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The District is a member of the SWACC, SAFER public entity risk pools, and the Riverside County Superintendent of Schools' Self-Insurance Program for Employees (SIPE) and Riverside Schools Risk Management Authority (RSRMA) Joint Powers Authorities. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

The District has appointed one Board member to the Governing Boards of RSRMA, SIPE, and SWACC.

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 is 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, 2018.

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, 2018.

DESERT COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Operating Leases

The District has entered into various leases for buildings with lease terms in excess of one year. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2019	\$ 222,547
2020	220,000
2021	564,305
2022	890,000
2020	890,000
Thereafter	<u>18,217,806</u>
Total Minimum Lease Payments	<u>\$ 21,004,658</u>

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
COD Palm Springs Campus	\$ 31,025,442	June 2024
Indio Campus Expansion	414,433	December 2022
Central Campus Redevelopment	31,063,112	August 2019
Groundwater Well Refurbishment	<u>922,137</u>	April 2019
	<u>\$ 63,425,124</u>	

The projects are funded through a combination of general obligation bonds and capital project apportionments from the California State Chancellor's Office.

DESERT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

	<u>Primary Government</u>	
Net Position - Beginning		\$ 79,193,772
Inclusion of aggregate net OPEB liability from the adoption of GASB Statement No. 75		<u>(2,645,409)</u>
Net Position - Beginning as Restated		<u>\$ 76,548,363</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
Total OPEB Liability	
Service Costs	\$ 457,066
Interest	410,083
Benefit Payments	<u>(401,715)</u>
Net Changes in Total OPEB Liability	465,434
Total OPEB Liability - beginning	<u>5,837,506</u>
Total OPEB Liability - ending (a)	<u>\$ 6,302,940</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 401,715
Net investment income	351,417
Benefit payments	(401,715)
Administrative expense	<u>(3,060)</u>
Net Change in Plan Fiduciary Net Position	348,357
Plan Fiduciary Net Position - beginning	<u>2,944,472</u>
Plan Fiduciary Net Position - ending (be)	<u>3,292,829</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 3,010,111</u>
Pan fiduciary net position as a percentage of the total OPEB liability	<u>52.24%</u>
Covered-employee payroll	<u>\$ 42,853,438</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>7.02%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OPEB INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2018**

	2018
Annual money-weighted rate of return, net of investment expense	<u>8.38%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
OPEB LIABILITY - MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2018**

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.0720%</u>
District's proportionate share of the net OPEB liability	<u>\$ 302,878</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note: In the future, as data becomes available, ten years of information will be presented.

DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.0398%</u>	<u>0.0416%</u>	<u>0.0391%</u>
District's proportionate share of the net pension liability	<u>\$ 36,775,058</u>	<u>\$ 33,619,691</u>	<u>\$ 26,354,396</u>
State's proportionate share of the net pension liability associated with the District	<u>21,755,813</u>	<u>19,139,091</u>	<u>13,938,570</u>
Total	<u>\$ 58,530,871</u>	<u>\$ 52,758,782</u>	<u>\$ 40,292,966</u>
District's covered-employee payroll	<u>\$ 22,694,428</u>	<u>\$ 20,052,406</u>	<u>\$ 18,820,721</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>162.04%</u>	<u>167.66%</u>	<u>140.03%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>	<u>74%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.1120%</u>	<u>0.1071%</u>	<u>0.1032%</u>
District's proportionate share of the net pension liability	<u>\$ 26,740,710</u>	<u>\$ 21,155,192</u>	<u>\$ 15,215,164</u>
District's covered-employee payroll	<u>\$ 13,971,429</u>	<u>\$ 12,681,438</u>	<u>\$ 11,432,104</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>191.40%</u>	<u>166.82%</u>	<u>133.09%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>	<u>79%</u>

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

2015

0.0408%

\$ 23,870,639

14,414,123

\$ 38,284,762

\$ 18,194,036

131.20%

77%

0.1033%

\$ 11,723,145

\$ 10,840,299

108.14%

83%

DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS FOR PENSIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
CalSTRS			
Contractually required contribution	\$ 3,743,087	\$ 2,854,959	\$ 2,152,267
Contributions in relation to the contractually required contribution	<u>(3,743,087)</u>	<u>(2,854,959)</u>	<u>(2,152,267)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 25,939,619</u>	<u>\$ 22,694,428</u>	<u>\$ 20,052,406</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>
CalPERS			
Contractually required contribution	\$ 2,588,316	\$ 1,940,352	\$ 1,502,370
Contributions in relation to the contractually required contribution	<u>(2,588,316)</u>	<u>(1,940,352)</u>	<u>(1,502,370)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 16,665,482</u>	<u>\$ 13,971,429</u>	<u>\$ 12,681,438</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

2015

\$ 1,671,280

(1,671,280)

\$ -

\$ 18,820,721

8.88%

\$ 1,345,673

(1,345,673)

\$ -

\$ 11,432,104

11.771%

DESERT COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the Plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - There were no changes of assumptions since the previous valuation.

Schedule of OPEB Investment Returns

This schedule presents information on the annual money-weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability - MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net positions and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions for Pensions

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

SUPPLEMENTARY INFORMATION

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DESERT COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2018

Desert Community College District was established on July 1, 1958, and is comprised of the territory of Palm Springs Unified School District, Coachella Valley Unified School District, Desert Sands Unified School District, Desert Center Unified School District, and Morongo Valley Unified School District. The District is located in Coachella Valley in Riverside County, California, and also includes a small portion of Imperial County in the Salton Sea area. There were no changes in the boundaries of the District during the current year. The District is 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.

The educational facilities of the Desert Community College District operate under the name College of the Desert.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Becky Broughton	Chairperson	2018
Dr. Bonnie Stefan	Vice Chairperson	2020
Dr. Fred Jandt	Clerk	2020
Mrs. Mary Jane Sanchez-Fulton	Member	2020
Mrs. Aurora Wilson	Member	2018

ADMINISTRATION

Dr. Joel L. Kinnamon	Superintendent/President
Mr. John Ramont	Interim Vice President, Administrative Services
Mr. Jeff Baker	Interim Vice President, Student Learning
Dr. Annebelle Nery	Vice President, Student Success
Dr. May Anne Gularte	Vice President, Human Resources and Employee Relations

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through 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	84.063		\$ 17,892,632
Federal Pell Grant Administrative Allowance	84.063		13,900
Federal Work Study Program	84.033		510,235
Federal Work Study Administrative Allowance	84.033		12,394
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		293,000
FSEOG Administrative Allowance	84.007		13,425
Total Student Financial Assistance Cluster			<u>18,735,586</u>
TRIO Cluster			
College of the Desert DSPS Student Support Services	84.042A		240,853
College of the Desert ACES Student Support Services	84.042A		299,323
College of the Desert Educational Talent Search	84.044A		300,434
College of the Desert Veterans Student Support Services	84.042A		228,718
College of the Desert Upward Bound Program	84.047A		359,370
Total TRIO Cluster			<u>1,428,698</u>
Passed through from California Department of Education			
Adult Basic Education and ELA	84.002A	14508	455,056
Adult Secondary Education	84.002A	13978	286,554
Passed through from California Community Colleges Chancellor's Office			
Career and Technical Education, Title I-C	84.048A	17-C01-013	367,765
Career and Technical Education Transitions	84.048A	17-C01-013	40,965
Passed through from California Department of Rehabilitation			
State Vocational Rehabilitation Services Program	84.126A	30094	188,195
Total U.S. Department of Education			<u>21,502,819</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through from California Department of Education			
Child and Adult Care Food Program	10.558	04370- CACFP-33- CC-IC	90,106

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
Passed through from Chaffey Community College District			
Trade Adjustment Assistance Community College and Career Training	17.282	TC-26434- 14-60-A-6	\$ 493,670
NATIONAL SCIENCE FOUNDATION			
Research and Development Cluster			
Passed through from California State University of San Bernardino			
Centers of Research Excellence in Science and Technology (CREST)	47.041	[1]	6,124
Passed through from University Enterprises Corporation at California State University San Bernardino			
Promoting Pre and Post-Transfer Success in STEM at Hispanic Serving Institutions	47.076	GT16174	<u>91,762</u>
Total Research and Development Cluster			<u>97,886</u>
Total National Science Foundation			<u>97,886</u>
US DEPARTMENT OF VETERAN AFFAIRS			
Vocational Rehabilitation for Disabled Veterans	64.116		1,898
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through from the California Community Colleges Chancellor's Office			
Temporary Assistance for Needy Families	93.558	[1]	69,218
Child Care and Development Fund (CCDF) Cluster			
Passed through from California Department of Education			
Child Care and Development Block Grant	93.575	15136	66,106
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	13609	<u>143,814</u>
Total Child Care and Development Fund Cluster			<u>209,920</u>
Total U.S. Department of Health and Human Services			<u>279,138</u>
Total Federal Expenditures			<u>\$ 22,465,517</u>

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
AEBG Consortium	\$ 744,149	\$ 442,500	\$ 1,186,649
AEBG Data and Accountability	340,780	-	340,780
Alternative and Renewable Fuel and Vehicle Technology Training	75,599	-	75,599
Basic Skills	26,642	441,115	467,757
Board Financial Assistance Program (BFAP)	-	115,872	115,872
CalWORKS	-	380,997	380,997
Campus Safety	-	-	-
Child and Adult Care Food Program	5,161	-	5,161
Child Development: California State Preschool Program	350,255	-	350,255
Child Development: General Childcare and Development	351,616	-	351,616
Completion Grant	-	333,000	333,000
Cooperative Agencies for Education (CARE)	-	124,944	124,944
CTE DATA Unlocked	33,243	-	33,243
Disabled Student Program and Services (DSPS)	5,141	838,547	843,688
Equal Employment Opportunity	22,714	50,000	72,714
EWD - Advanced Transportation	339,648	200,000	539,648
EWD - Advanced Transportation Mini Grant	-	10,000	10,000
EWD - Health	305,534	200,000	505,534
Extended Opportunity Program (EOPS)	-	542,005	542,005
Full Time Student Success	110,776	920,000	1,030,776
Guided Pathways	-	303,083	303,083
Hunger Free Campus	-	19,937	19,937
MESA	5,495	74,515	80,010
Nursing Assessment	-	228,000	228,000
One Time Dreamer Aid	-	88,146	88,146
Prop 39 - Clean Energy	68,501	421,234	489,735
Prop 39 - Clean Energy KCCD MOU	-	50,000	50,000
Prop 39 - Clean Energy Mini Grant	-	100,000	100,000
State Instructional Equipment/Repairs	621,629	562,225	1,183,854
Strong Workforce Program - Regional Round One	353,625	-	353,625
Strong Workforce Program Local Round One	707,434	-	707,434
Strong Workforce Program Local Round Two	-	1,326,465	1,326,465
Student Financial Aid Administration	-	284,107	284,107
Student Support and Success Program - Credit	67,461	1,684,854	1,752,315
Student Support and Success Program - Equity	-	1,284,412	1,284,412
Student Support and Success Program - Non Credit	113,564	225,225	338,789
Veterans Resource Center	44,432	-	44,432
Total			

See accompanying note to supplementary information.

Program Revenues

Cash Received	Accounts Receivable (Payable)	Unearned Revenue	Total Revenue	Program Expenditures
\$ 1,186,649	\$ -	\$ 421,123	\$ 765,526	\$ 765,526
340,780	-	329,845	10,935	10,935
75,599	-	-	75,599	75,599
467,757	-	-	467,757	467,757
115,872	-	-	115,872	115,872
380,997	(729)	-	380,268	380,268
20,223	-	20,223	-	-
5,161	-	-	5,161	5,161
221,670	128,585	-	350,255	350,255
351,616	-	-	351,616	351,616
333,000	-	137,608	195,392	195,392
124,944	-	-	124,944	124,944
33,243	-	15,817	17,426	17,426
843,688	-	-	843,688	843,688
72,714	-	39,971	32,743	32,743
206,096	112,842	-	318,938	318,938
10,000	-	-	10,000	10,000
137,657	129,388	-	267,045	267,045
542,005	-	-	542,005	542,005
1,030,776	-	7,276	1,023,500	1,023,500
303,083	-	302,841	242	242
19,937	-	-	19,937	19,937
7,556	64,221	-	71,777	71,777
59,280	141,580	-	200,860	200,860
88,146	-	-	88,146	88,146
187,976	53,154	-	241,130	241,130
-	16,600	-	16,600	16,600
40,000	-	9,971	30,029	30,029
1,183,854	-	460,615	723,239	723,239
75,657	245,737	-	321,394	321,394
707,434	-	180,137	527,297	527,297
1,326,465	-	946,608	379,857	379,857
284,107	-	-	284,107	284,107
1,752,315	-	-	1,752,315	1,752,315
1,284,412	-	-	1,284,412	1,284,412
338,789	-	51,909	286,880	286,880
44,432	-	42,877	1,555	1,555
<u>\$ 14,203,890</u>	<u>\$ 891,378</u>	<u>\$ 2,966,821</u>	<u>\$ 12,128,447</u>	<u>\$ 12,128,447</u>

DESERT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2018**

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2017 only)			
1. Noncredit	26.30	-	26.30
2. Credit	619.57	-	619.57
B. Summer Intersession (Summer 2018 - Prior to July 1, 2018)			
1. Noncredit	-	-	-
2. Credit	586.29	-	586.29
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	6,134.40	-	6,134.40
(b) Daily Census Contact Hours	653.00	-	653.00
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	701.62	-	701.62
(b) Credit	209.96	-	209.96
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	844.08	-	844.08
(b) Daily Census Contact Hours	364.89	-	364.89
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	10,140.11	-	10,140.11
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	32.14	-	32.14
2. Credit	552.39	-	552.39
<u>CCFS-320 Addendum</u>			
CDCP Noncredit FTES	668.20	-	668.20

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2018**

	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	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 11,754,670	\$ -	\$ 11,754,670	\$ 11,754,670	\$ -	\$ 11,754,670
Other	1300	8,785,441	-	8,785,441	8,785,441	-	8,785,441
Total Instructional Salaries		20,540,111	-	20,540,111	20,540,111	-	20,540,111
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	4,311,060	-	4,311,060
Other	1400	-	-	-	745,523	-	745,523
Total Noninstructional Salaries		-	-	-	5,056,583	-	5,056,583
Total Academic Salaries		20,540,111	-	20,540,111	25,596,694	-	25,596,694
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	10,808,031	-	10,808,031
Other	2300	-	-	-	672,860	-	672,860
Total Noninstructional Salaries		-	-	-	11,480,891	-	11,480,891
Instructional Aides							
Regular Status	2200	952,548	-	952,548	952,548	-	952,548
Other	2400	-	-	-	-	-	-
Total Instructional Aides		952,548	-	952,548	952,548	-	952,548
Total Classified Salaries		952,548	-	952,548	12,433,439	-	12,433,439
Employee Benefits	3000	7,606,831	-	7,606,831	14,410,665	-	14,410,665
Supplies and Material	4000	-	-	-	770,485	-	770,485
Other Operating Expenses	5000	-	-	-	6,495,304	-	6,495,304
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		29,099,490	-	29,099,490	59,706,587	-	59,706,587

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

	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	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ -	\$ -	\$ -	\$ 28,413	\$ -	\$ 28,413
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	(1,128)	-	(1,128)
Objects to Exclude							
Rents and Leases	5060	-	-	-	373,453	-	373,453
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.

DESERT COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

	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	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 1,481,395	\$ -	\$ 1,481,395
Capital Outlay							
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	1,481,395	-	1,481,395
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	1,882,133	-	1,882,133
Total for ECS 84362, 50 Percent Law		\$29,099,490	\$ -	\$29,099,490	\$57,824,454	\$ -	\$57,824,454
Percent of CEE (Instructional Salary Cost/Total CEE)		50.32%		50.32%	100.00%		100.00%
50% of Current Expense of Education					\$28,912,227		\$28,912,227

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

	<u>Bond Fund</u>
FUND BALANCE	
Balance, June 30, 2018, (CCFS-311)	\$ 85,663,148
Adjustments:	
Accounts payable	<u>(375,013)</u>
Balance, June 30, 2018, Audited	<u>\$ 85,288,135</u>

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACCOUNT (EPA)
EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

Activity Classification	Object Code				Unrestricted
EPA Proceeds:	8630				\$ 8,022,901
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 8,022,901	-	-	\$ 8,022,901
Revenues Less Expenditures					\$ -

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION JUNE 30, 2018

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

Total Fund Balance:

General Funds	\$ 14,996,040	
Special Revenue Funds	378,886	
Capital Project Funds	129,030,301	
Debt Service Funds	34,995,313	
Internal Service Funds	4,210,904	
Fiduciary Funds	(969)	
Total Fund Balance - All District Funds		\$ 183,610,475

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	466,362,629	
Accumulated depreciation is	(104,644,452)	361,718,177

Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.

15,118,633

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:

Pension contributions subsequent to measurement date	6,331,403	
Net change in proportionate share of net pension liability	2,167,495	
Differences between projected and actual earnings on pension plan investments	925,046	
Differences between expected and actual experience in the measurement of the total pension liability	1,094,008	
Changes of assumptions	10,718,910	
Total Deferred Outflows of Resources Related to Pensions		21,236,862

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:

Net change in proportionate share of net pension liability	1,890,182	
Differences between projected and actual earnings on pension plan investments	979,422	
Differences between expected and actual experience in the measurement of the total pension liability	641,417	
Changes of assumptions	314,839	
Total Deferred Outflows of Resources Related to Pensions		(3,825,860)

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION, Continued
JUNE 30, 2018**

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year end consist of OPEB contributions subsequent to measurement date.

\$ 401,715

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

(6,311,188)

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

Long-term obligations at year end consist of:

Bonds payable	\$ 364,935,000
Bond premiums	54,138,319
Load banking liability	450,769
Compensated absences	1,215,667
Aggregate net pension obligation	63,515,768
Aggregate net OPEB liability	3,312,989
PARS supplemental early retirement plan	<u>700,203</u>

(488,268,715)

Total Net Position

\$ 83,680,099

See accompanying note to supplementary information.

DESERT COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 20182018

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 Title 2 U.S. Code of Federal Regulations (Part 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Position:		\$ 22,464,488
Federal Pell Grant Program	84.063	(1,648)
Federal Pell Grant Administrative Allowance	84.063	(10,445)
Federal Work Study Program	84.033	2,047
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007	11,075
Total Expenditures of Federal Awards		<u>\$ 22,465,517</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.

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.

DESERT COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 20182018

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 Audited 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 audited financial statements.

Proposition 30 Education Protection Account (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 government-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

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INDEPENDENT AUDITOR'S REPORTS

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**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
Desert Community College District
Palm Desert, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Desert Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 26, 2018.

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 November 26, 2018.

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.

Vawter Tume Day & Co. LLP

Riverside, California
November 26, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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

Board of Trustees
Desert Community College District
Palm Desert, California

Report on Compliance for Each Major Federal Program

We have audited Desert Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2018. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002. Our opinion on each major Federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Vavineck Tume Day & Co LLP

Riverside, California
November 26, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Desert Community College District
Palm Desert, California

Report on State Compliance

We have audited Desert Community College District's (the District) compliance with the types of compliance requirements as identified in the 2017-2018 California Community Colleges Chancellor's Office *District Audit Manual* that could have a direct and material effect on each of the District's State programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

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 2017-2018 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 opinions. 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 State programs noted below that were audited for the year ended June 30, 2018.

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 Dual Enrollment (CCAP and Non-CCAP)
- Section 428 Student Equity
- Section 429 Student Success and Support Program (SSSP) Funds
- Section 430 Scheduled Maintenance Program
- Section 431 Gann Limit Calculation
- Section 435 Open Enrollment
- Section 439 Proposition 39 Clean Energy Fund
- Section 440 Intersession Extension Programs
- Section 444 Apprenticeship Related and Supplemental Instruction (RSI) Funds
- Section 475 Disabled Student Programs and Services (DSPS)
- Section 479 To Be Arranged Hours (TBA)
- Section 490 Proposition 1D and 51 State Bond Funded Projects
- Section 491 Education Protection Account Funds

The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore, the compliance tests within this section were not applicable.

The District did not offer Intersession Extension Program; therefore, the compliance tests within this section were not applicable.

The District did not receive Apprenticeship Related and Supplemental Instruction (RSI) Funds; therefore, the compliance tests within this section were not applicable.

The District did not offer any To Be Arranged (TBA) Hours courses; therefore, the compliance tests within this section were not applicable.

The District did not receive any funding for Proposition 1D and 5 State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

Vavineck Tume Day & Co. LLP

Riverside, California
November 26, 2018

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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DESERT COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

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>Yes</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 200.516(a) of the Uniform Guidance?	<u>Yes</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.063, 84.033, 84.007</u>	<u>Student Financial Assistance Cluster</u>

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

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

DESERT COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

The following findings represent significant deficiencies and instances of noncompliance including questioned costs that are required to be reported by the Uniform Guidance.

2018-001 Finding

Program Name: Student Financial Assistance Cluster, Federal Pell Grant Program

CFDA Number: 84.063

Federal Agency: U.S. Department of Education

Criteria or Specific Requirement

34 CFR section 668.22(c):

If an institution is not required to take attendance, the withdrawal date is (1) the date, as determined by the institution, that the student began the withdrawal process prescribed by the school; (2) the date, as determined by the institution, that the student otherwise provided official notification to the school, in writing or orally, of his or her intent to withdraw; (3) if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment; (4) if the institution determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss or other circumstances beyond the student's control, the date the institution determines is related to that circumstance; (5) if a student does not return from an approved leave of absence, the date that the institution determines the student began the leave of absence; or (6) if the student takes an unapproved leave of absence, the date that the student began the leave of absence.

Condition

Significant Deficiency – The District did not use the correct withdrawal date in performing the return to Title IV calculation.

Questioned Costs

No questioned costs.

Context

Out of forty calculations tested, there was one where the District used an incorrect withdrawal date in performing the return to Title IV calculation.

Effect

Without proper monitoring of student withdrawals, the District risks noncompliance with the above referenced criteria.

Cause

The institution incorrectly input the withdrawal date in to the return to Title IV calculation.

DESERT COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

Repeat Finding: No

Recommendation

It is recommended that the institution perform a review of all return to Title IV calculations to ensure accuracy.

Corrective Action Plan

The District will take corrective actions to ensure that the policies and procedures from the Department of Education are adhered to as it pertains to return to Title IV regulations. The District has created additional reports that capture students' enrollment histories to further ensure accurate withdrawal dates are being identified when performing a return to Title IV calculation. In addition, College of the Desert has moved the calculations for their return to Title IV processing to their student information system to ensure the calculations are aligned to the correct date and are accurate. Furthermore, the District has created and hired an Accounting Specialist to assist with the return to Title IV process alongside the Financial Analyst. Staff will regularly attend training conferences to ensure that they are up to date with the most current regulations.

2018-002 Finding

Program Name: Student Financial Assistance Cluster, Federal Pell Grant Program

CFDA Number: 84.063

Federal Agency: U.S. Department of Education

Criteria or Specific Requirement

34 CFR sections 668.22(e)(1) and 668.22(e)(2)

The amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours, or (2) the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours.

Condition

Significant Deficiency – The District did not accurately calculate the amount of Title IV grant assistance awarded to the student as of the student's withdrawal date.

Questioned Costs

No questioned costs.

DESERT COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

Context

Out of forty calculations tested, there was one where the District performed the return to Title IV calculation using the incorrect number of days attended as of the student's withdrawal date.

Effect

Without proper monitoring of student's enrollment status at their withdrawal date, the District risks noncompliance with the above referenced criteria.

Cause

The institution did not correctly identify that units enrolled at the time of the student's withdrawal date.

Repeat Finding: No

Recommendation

It is recommended that the institution identify the units enrolled at the time of the student's withdrawal date, and to use that enrollment status when performing the return to Title IV calculation.

Corrective Action Plan

The District will take corrective actions to ensure that the policies and procedures from the Department of Education are adhered to as it pertains to return to Title IV regulations. The District has created additional reports that capture students' enrollment histories to further ensure accurate data is being identified when performing the return to Title IV calculation. This report will ensure accuracy as it pertains to a student's number of days attended in their return to Title IV calculation. In addition, College of the Desert has moved the calculations for return to Title IV processing to their student information system to ensure the calculations are aligned to the correct date and are accurate. Furthermore, the District has created and hired an Accounting Specialist to assist with the return to Title IV process alongside the Financial Analyst. Staff will regularly attend training conferences to ensure that they are up to date with the most current regulations.

DESERT COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

DESERT COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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 Findings and Questioned Costs.

2017-001 Financial Reconciliation and District Closing Process

Criteria or Specific Requirement

The accounting system used to record the financial affairs of any community college district shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges Budget and Accounting Manual (BAM). Colleges are also required to present their financial statements in accordance with generally accepted accounting principles (GAAP).

Condition

Significant Deficiency – Adjustments and reclassifications were required to conform to the BAM and GAAP during the District's closing process. Corrections were made to the various accounts included below, but not limited to:

- Accounts receivable balance relating to Federal revenue was overstated and required adjustment.
- Prepaid expenses were recorded to accounts receivable and required reclassification to conform with GAAP.
- Contracts were accrued for as an accounts payable for work that had not been completed, which is not in conformity with GAAP. Contract accruals did not reflect expenses incurred by the District and, therefore, do not meet the criteria for recognition of a liability or obligation to the District.
- Apportionment calculation was incorrect and resulted in an overstatement of Education Protection Act revenue.
- Capital asset balance was not reconciled timely.

Questioned Costs

Adjustments to the financial statements were reviewed with management and accepted for posting. No questioned costs were associated with this finding.

Context

The District maintains individual funds with asset and liability balances subject to the reconciliation process. The net impact to the individual funds is included on page 83 of this report.

Effect

Many adjustments to the general ledger were proposed as a result of the audit procedures. These adjustments were accepted by management to ensure the financial statements were presented fairly.

DESERT COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Cause

The oversight and monitoring controls over the individual asset and liability accounts and the closing process appear not to have been adhered to.

Recommendation

The District should develop a closing procedure calendar at year end to ensure that all information is prepared, reviewed, and reconciled prior to the closing of the general ledger. A regular and timely reconciliation of the asset and liability accounts should be performed with any inconsistencies reconciled and adjusted prior to year end.

Current Status

Implemented.