

**MONTEREY PENINSULA  
COMMUNITY COLLEGE DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2018**

# MONTEREY PENINSULA 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  
Monterey Peninsula Community College District  
Monterey, 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 Monterey Peninsula 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 15 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 14 and other required supplementary schedules on pages 65 through 69 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 December 17, 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.



Rancho Cucamonga, California  
December 17, 2018



MONTEREY PENINSULA  
COLLEGE

***USING THIS ANNUAL REPORT***

The Monterey Peninsula Community College District (the District) presents the following discussion and analysis to assist the reader by focusing on significant financial issues, providing an overview of the District's financial activities and condition, to explain changes in the District's financial condition, and to identify challenges of subsequent fiscal years. 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 the District management.

***OVERVIEW OF THE FINANCIAL STATEMENTS***

The Monterey Peninsula Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities*. These statements allow 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 nonoperating, 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.

***FINANCIAL HIGHLIGHTS***

The District's assets are primarily cash, land, and facilities. Liabilities are primarily long-term bonds and pension liability. The District's total assets and deferred outflows of resources increased by \$3,259,888, or 1.5 percent, to \$218,456,702, and total liabilities and deferred inflows of resources increased by \$518,014, or 0.3 percent, to \$203,086,156. This results in net position being increased by \$2,741,874, or 21.7 percent, to \$15,370,546.

In November 2002, a Proposition 39 facility bond was approved by the local voters giving the District \$145.0 million to assist in modernization of the existing campus and construct a satellite campus and public safety training facilities on the former Fort Ord properties. The repayment of the bonds will be through a special tax assessment on local property owners. In June 2003, the first series of bonds was sold and proceeds (\$40.0 million) were deposited with the County Treasurer. The first series was refinanced in 2006 which generated an additional \$4.2 million for projects. The second and third series of bonds were issued in January 2008: \$9,004,530 taxable and \$95,994,770 tax exempt. Numerous projects are in various stages of completion and a balance of \$8.8 million remains available.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

### STATEMENT OF NET POSITION

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. The biggest change in this statement is that our fixed assets (land, building, and equipment) are capitalized and depreciated. As a result, they are now reflected as an asset on this statement. Net position, the difference between assets and liabilities, are one way to measure the financial health of the District.

### STATEMENT OF NET POSITION

	2018	(as restated) 2017
<b>ASSETS</b>		
Current Assets		
Cash and investments	\$ 40,028,846	\$ 36,615,692
Accounts receivable	2,279,884	3,530,146
Total Current Assets	<u>42,308,730</u>	<u>40,145,838</u>
Noncurrent Assets		
Capital assets (net)	154,583,122	158,618,805
Total Assets	<u>196,891,852</u>	<u>198,764,643</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charges on refunding	7,698,621	8,901,437
Deferred outflows of resources related to pensions and OPEB	13,866,229	7,530,734
Total Deferred Outflows of Resources	<u>21,564,850</u>	<u>16,432,171</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued interest	\$ 6,358,110	\$ 6,148,432
Unearned revenue	4,550,073	4,022,649
Current portion of long-term obligations	6,824,140	6,160,000
Total Current Liabilities	<u>17,732,323</u>	<u>16,331,081</u>
Noncurrent portion of long-term obligations	<u>180,631,333</u>	<u>182,065,826</u>
Total Liabilities	<u>198,363,656</u>	<u>198,396,907</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	<u>4,722,500</u>	<u>4,171,235</u>
<b>NET POSITION</b>		
Net investment in capital assets	37,357,097	35,448,533
Restricted	9,285,527	8,408,179
Unrestricted	<u>(31,272,078)</u>	<u>(31,228,040)</u>
Total Net Position	<u>\$ 15,370,546</u>	<u>\$ 12,628,672</u>

Cash and investments consist primarily of funds held in the Monterey County Treasury. The changes in our cash position are explained in the Statement of Cash Flows on pages 17 and 18.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position present the operating results of the District, as well as the nonoperating revenue and expenses. The State general apportionment and property taxes, while budgeted for operations, are considered nonoperating revenues according to Governmental Accounting Standards Board (GASB). As a result, this statement will show a significant operating loss.

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Tuition and fees, net	\$ 4,553,119	\$ 4,462,033
Federal, state, and local grants and contracts, noncapital	<u>10,997,338</u>	<u>8,638,753</u>
Total Operating Revenues	<u>15,550,457</u>	<u>13,100,786</u>
Operating Expenses		
Salaries and benefits	31,834,124	33,128,142
Supplies, maintenance, equipment, and other expenses	19,779,148	23,284,837
Student financial aid	9,435,644	8,003,828
Depreciation	<u>4,708,676</u>	<u>4,812,900</u>
Total Operating Expenses	<u>65,757,592</u>	<u>69,229,707</u>
Operating Loss	<u>(50,207,135)</u>	<u>(56,128,921)</u>
Nonoperating Revenues (Expenses)		
State apportionments	14,695,010	16,463,080
Federal and state financial aid	8,377,991	11,050,590
Property taxes	29,616,046	27,511,110
Other state revenues	2,186,347	1,951,464
Net interest expense	(2,639,988)	(2,789,590)
Other nonoperating revenues	<u>494,956</u>	<u>1,489,434</u>
Total Nonoperating Revenues (Expenses)	<u>52,730,362</u>	<u>55,676,088</u>
Other Revenues		
State and local capital income	<u>218,647</u>	<u>701,265</u>
Change in Net Position	<u>\$ 2,741,874</u>	<u>\$ 248,432</u>

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

In accordance with requirements set forth by the California Community Colleges Chancellor's Office, the District reports operating expenses by object code. Operating expenses by functional classification are as follows:

	Salaries & Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 13,320,195	\$ 7,888,859	\$ -	\$ -	\$ 21,209,054
Academic support	229,269	88,959	-	-	318,228
Instructional support services	871,819	721,845	-	-	1,593,664
Student services	6,738,786	3,317,326	-	-	10,056,112
Plant operation and maintenance	1,085,753	2,359,598	-	-	3,445,351
General institutional support services	8,551,161	2,556,265	-	-	11,107,426
Ancillary services & auxiliary operations	1,037,141	963,443	-	-	2,000,584
Student aid	-	-	9,435,644	-	9,435,644
Physical property and related acquisitions	-	1,882,853	-	-	1,882,853
Depreciation	-	-	-	4,708,676	4,708,676
Total	<u>\$ 31,834,124</u>	<u>\$ 19,779,148</u>	<u>\$ 9,435,644</u>	<u>\$ 4,708,676</u>	<u>\$ 65,757,592</u>

**STATEMENT OF CASH FLOWS**

The Statement of Cash Flows provides information about cash receipts and payments during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and the District's need for external funding.

**STATEMENT OF CASH FLOWS**

	2018	2017
Cash Provided by (Used in)		
Operating activities	\$ (44,843,819)	\$ (49,598,776)
Noncapital financing activities	48,372,443	49,952,165
Capital financing activities	(437,284)	(424,074)
Investing activities	321,814	322,438
Net Change in Cash	3,413,154	251,753
Cash, Beginning of Year	36,615,692	36,363,939
Cash, End of Year	<u>\$ 40,028,846</u>	<u>\$ 36,615,692</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

### *CAPITAL ASSET AND DEBT ADMINISTRATION*

#### **Capital Assets**

At June 30, 2018, the District had \$208,314,107 in a broad range of capital assets including land, buildings, and furniture and equipment. At June 30, 2018, our net capital assets were \$154,583,122.

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

#### **CAPITAL ASSETS**

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Land and construction in progress	\$ 10,564,226	\$ 499,998	\$ -	\$ 11,064,224
Buildings and improvements	188,857,701	-	-	188,857,701
Furniture and equipment	8,219,187	172,995	-	8,392,182
Subtotal	207,641,114	672,993	-	208,314,107
Accumulated depreciation	49,022,309	4,708,676	-	53,730,985
	<u>\$ 158,618,805</u>	<u>\$ (4,035,683)</u>	<u>\$ -</u>	<u>\$ 154,583,122</u>

#### **Obligations**

At June 30, 2018, the District had \$137,196,474 in general obligation bonds outstanding, including premium. These bonds are repaid annually in accordance with the obligation requirements through an increase in the assessed property taxes on property within the Monterey Peninsula Community College District boundaries. Other obligations for the District include the lease revenue bonds, compensated absences, early retirement plan, claims liability, aggregate net OPEB liability, and the aggregate net pension liability.

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

#### **LONG-TERM OBLIGATIONS**

	(as restated) Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
General obligation bonds	\$ 142,933,921	\$ 2,093,911	\$ 7,831,358	\$ 137,196,474
Lease revenue bonds	40,000	-	20,000	20,000
Compensated absences	904,037	-	69	903,968
Early retirement plan	-	820,700	164,140	656,560
Claims liability	679,926	116,940	-	796,866
Aggregate net OPEB liability	7,069,456	-	145,193	6,924,263
Aggregate net pension liability	36,598,486	4,358,856	-	40,957,342
Total Long-Term Obligations	<u>\$ 188,225,826</u>	<u>\$ 7,390,407</u>	<u>\$ 8,160,760</u>	<u>\$ 187,455,473</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### *ECONOMIC FACTORS AFFECTING THE FUTURE OF THE MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT*

Financial information is maintained by the District in eleven (11) governmental funds. All funds show positive ending balances, and the District's designated Unrestricted General Fund reserve is ten percent (10%) of the Unrestricted General Fund budget.

The primary source of income for day-to-day operations of the District is derived from enrollments. Enrollment income is received based on actual in-state credit, enhanced non-credit, and non-credit full-time equivalent students (FTES). Actual funds are paid through local taxes, student registration fees, and the State. The State sets the amount the District will receive per in-state FTES with non-credit FTES being paid 40 percent (40%) less than credit FTES. The total amount paid for in-state FTES is limited based on an apportionment cap calculated by the State. The District offers a mixture of credit, enhanced non-credit, and non-credit courses to generate FTES toward the apportionment cap.

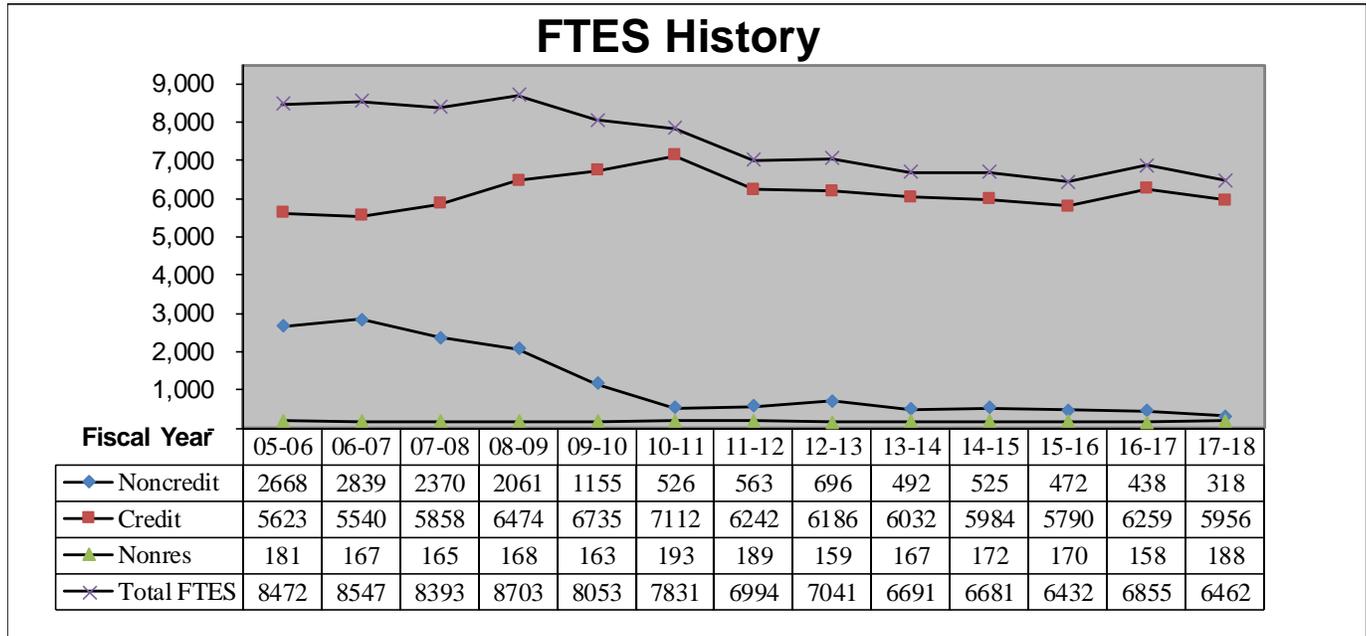
The 2018-2019 State budget adopts a new student-centered funding formula that provides funding to districts based upon additional factors: the number of low-income students enrolled, the number of students who meet specific student success metrics, including completion of a degree or certificate. The formula will be implemented over the next three years. Important features of the funding formula include the following: Formula Structure and Transition – in 2018-2019, 70 percent of funding will be distributed based on enrollment, 20 percent based on enrollment of low-income students, and 10 percent based on student success metrics. This percent distribution will change for 2019-2020 and 2020-2021. There is also a Hold Harmless Provision – In 2018-2019, 2019-2020, 2020-2021 no district will receive less funding than they received in 2017-2018, and each district will receive an increase to reflect a cost-of-living increase. In 2021-2022 and out-going years, districts will receive no less in apportionment revenue than is currently being provided.

A number of trends have become more prominent in the District's FTES production over the past few years. In 2008-2009, total FTES was 8,703 including non-resident students. At about the same time, the Chancellor's Office began to encourage community colleges to focus course offerings in three credit areas namely transfer courses, basic skills, and career technical education. From 2008-2009 to 2012-2013, Monterey Peninsula Community College (MPC) reduced non-credit FTES production 66 percent. From 2008-2009 to 2011-2012, credit FTES production increased 9 percent to offset revenue loss in the non-credit area. However, credit FTES has declined from 2010-2011 because of a variety of reasons including increased student fees, State workload reduction, the economy, and declining classroom efficiency. Declining enrollments have resulted in declines in revenue. The District's strategy for increasing FTES production to restore above 6,500, include increasing efficiency, implementation of guided pathways programs, offering additional course sections in growth areas, and at the MPC Marina Campus improve and enhance enrollment and retention rates, increase outreach, advertising, and create partnerships with public and private organizations.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**



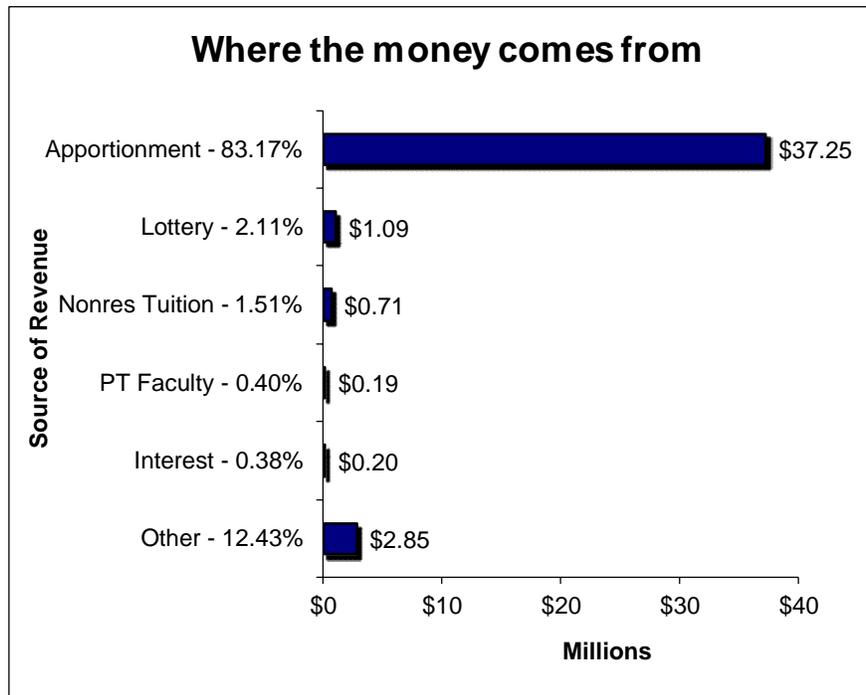
The forecast for the State economy sees slowing. This is due to what is happening in international trade, possible trade wars, and tariffs, which would reduce the number of jobs in the State. Another fiscal risk is due in part to the State's tax system, which makes it vulnerable during times when the economy or stock market turn down. The stock market has an impact on State revenues, on personal income taxes. The changes in the stock market can cause swings in the State's collected revenue. The governor has pushed for a "rainy day" fund several years ago. The 2018-2019 State enacted budget increases the fund to the constitutional maximum allowed.

In looking at MPC's general and special funds revenues, apportionment revenues (State, student fees, and local property taxes) make up the majority share of revenues. Approximately \$3.3 million of State funding was cut in 2009-2010 and another \$2.9 million was cut in 2011-2012. Over the same period, student fees have been increased from \$26 to \$46 per unit, but not enough to offset the overall reduction in revenue. State cuts have primarily taken the form of "workload reductions" resulting in lower apportionment and FTES caps. State regulations set limits on class repetitions and limited classes for life-long learners. Apportionment revenues continue to represent 90 percent of the General Fund revenue sources. Going into budget year 2018-2019, the State made notable budget adjustments which include: A Student – Focused Formula – An increase of \$522.8 million Proposition 98 General Fund to implement a new student-focused funding formula, which includes the following: Increase of \$151.3 million to support a base augmentation of apportionments; increase of \$173.1 million for a 2.71 percent cost-of-living adjustment for total apportionment growth; increase of \$58.7 million, of which \$35 million is one-time, to support hold harmless provision and ensure all districts grow by at least the 2018-2019 cost-of-living adjustment; increase of \$138.7 million to reflect the amounts earned back by community colleges declining in enrollment during the previous three years; increase of \$59.7 million for enrollment growth of one percent; decrease of \$58.7 million to reflect unused growth provided in 2016-2017. Additional notable budget adjustments include: The establishment of California Online Community College; Consolidation of two existing financial aid programs to establish the Student Success Completion Grant; Implementation of the California College Promise. A couple of significant adjustments include: An increase of \$127.5 million increase in Cal Grant Program costs; and an increase of \$22.6 million in Federal TANF reimbursements.

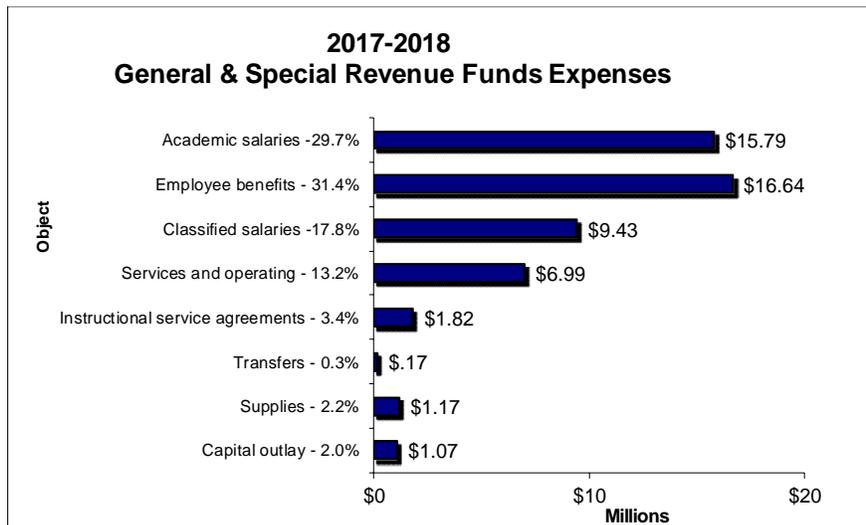
**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**



Costs for employees represent 73 percent of total expenses in the General and Special Revenue Funds. These expenses include academic and classified salaries, employee benefits and instructional service agreements.



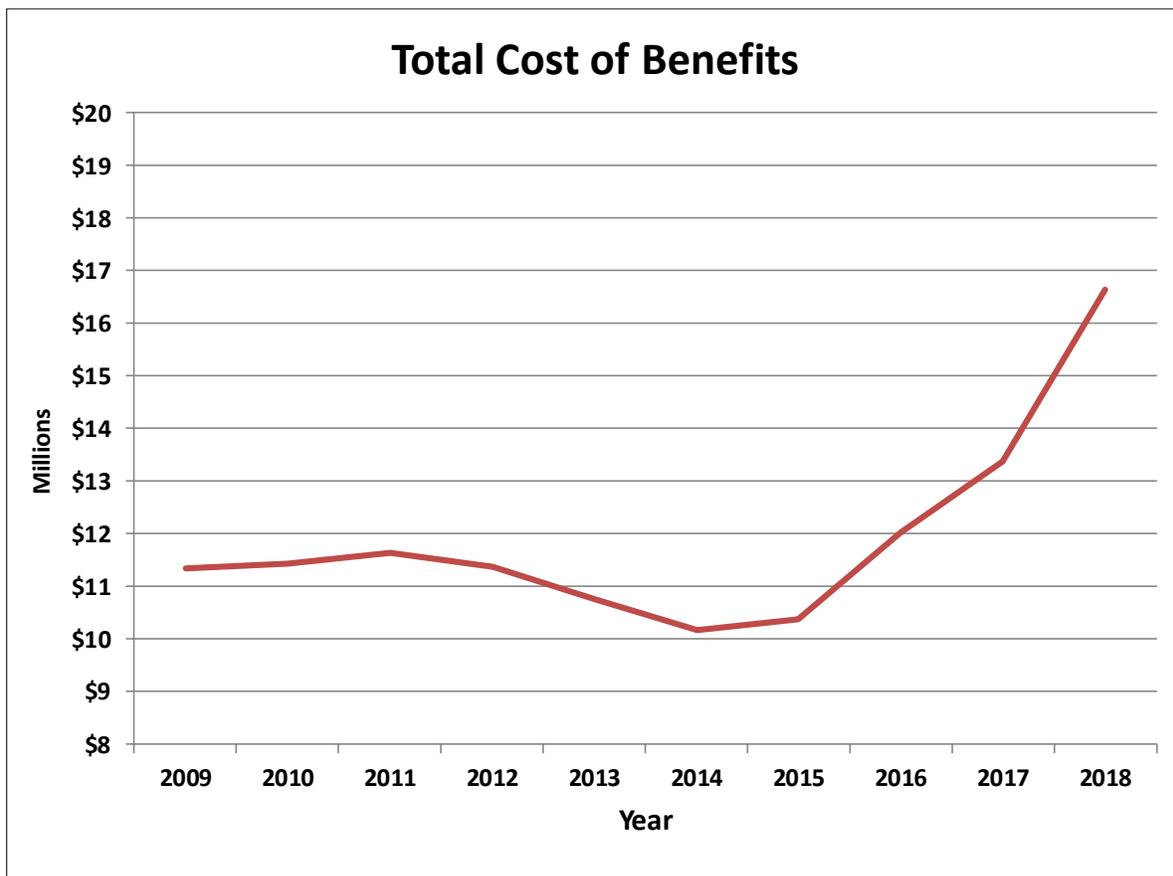
# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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Employee benefit costs represent the second largest expense category for the District and have increased in the past 10 years. The largest portion of benefit costs is for health and welfare, for which the District is self-insured. Stop loss insurance is carried to cover large claims typically associated with catastrophic illnesses; however, increased costs for medical expenses paid by the District have outpaced inflation. The industry trend for annual medical expense increase has been running in the 12 percent + range. In response to this trend, the District has implemented a number of cost containment measures including the adoption of a three phase plan with increased deductible, co-insurance, and Out-of-Pocket Maximum provisions. The District HWCCC is currently exploring other options to further reduce expenditures. Medical claims and utilization are cyclical; therefore, the District should anticipate a minimum annual increase of 10 percent to 12 percent just for industry trends going forward.



The District provides medical benefits to retirees and currently has an unfunded actuarial accrued liability of \$6.9 million. The current fund balance in the District's Self-Insurance Fund is \$3.5 million. The Other Postemployment Benefits (OPEB) Fund ended with a current fund balance of \$576 thousand and Workers' Compensation Fund, ended with a current fund balance of \$110 thousand. The District established a GASB 43 trust for future OPEB benefits in 2015-2016 in the amount of \$3 million. This complies with GASB rules for funding the liability and provides greater interest income to pay down the liability.

# **MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

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In conclusion, the District continues to have a solid financial base. Reserves are believed to be adequate. The 2018-2019 final budget is balanced, with no funds being transferred from other funds. The balance budget has been achieved by a reduction to operating budgets, efficiency through scheduling, vacancies, and additional funds projected to the base apportionment revenue.

### ***CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Monterey Peninsula Community College District at 980 Fremont Street, Monterey, California 93940-4799.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

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### ASSETS

#### CURRENT ASSETS

Cash and cash equivalents	\$ 605,909
Investments	20,906,438
Investments - restricted	18,516,499
Accounts receivable	1,828,873
Student loans receivable	146,211
Due from fiduciary funds	304,800
<b>Total Current Assets</b>	<b>42,308,730</b>

#### NONCURRENT ASSETS

Nondepreciable capital assets	11,064,224
Depreciable capital assets, net of depreciation	143,518,898
<b>Total Noncurrent Assets</b>	<b>154,583,122</b>
<b>TOTAL ASSETS</b>	<b>196,891,852</b>

#### DEFERRED OUTFLOWS OF RESOURCES

Deferred charges on refunding	7,698,621
Deferred outflows of resources related to OPEB	1,827,907
Deferred outflows of resources related to pensions	12,038,322
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>21,564,850</b>

### LIABILITIES

#### CURRENT LIABILITIES

Accounts payable	5,964,069
Accrued interest payable	394,041
Unearned revenue	4,550,073
Current portion of long-term obligations	6,824,140
<b>Total Current Liabilities</b>	<b>17,732,323</b>

#### NONCURRENT LIABILITIES

Aggregate net pension liability	40,957,342
Noncurrent portion of long-term obligations	139,673,991
<b>Total Noncurrent Liabilities</b>	<b>180,631,333</b>
<b>TOTAL LIABILITIES</b>	<b>198,363,656</b>

#### DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	4,722,500
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#### NET POSITION

Net investment in capital assets	37,357,097
Restricted for:	
Debt service	7,933,633
Capital projects	86,649
Other activities	1,265,245
Unrestricted	(31,272,078)
<b>TOTAL NET POSITION</b>	<b>\$ 15,370,546</b>

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

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

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### OPERATING REVENUES

Student Tuition and Fees	\$ 8,525,462
Less: Scholarship discounts and allowances	(3,972,343)
Net tuition and fees	<u>4,553,119</u>
Grants and Contracts, Noncapital	
Federal	2,669,972
State	8,060,890
Local	<u>266,476</u>
Total grants and contracts, noncapital	<u>10,997,338</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>15,550,457</b></u>

### OPERATING EXPENSES

Salaries	25,217,391
Employee benefits	6,616,733
Supplies, materials, and other operating expenses and services	18,911,727
Equipment, maintenance, and repairs	867,421
Student financial aid	9,435,644
Depreciation	<u>4,708,676</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>65,757,592</b></u>

### OPERATING LOSS

(50,207,135)

### NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	14,695,010
Federal financial aid grants, noncapital	7,713,420
State financial aid grants, noncapital	664,571
Local property taxes, levied for general purposes	21,659,999
Taxes levied for other specific purposes	7,956,047
State taxes and other revenues	2,186,347
Investment income	356,289
Interest expense on capital related debt	(3,027,749)
Investment income on capital asset-related debt	31,472
Other nonoperating revenue	<u>494,956</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u><b>52,730,362</b></u>

### INCOME BEFORE OTHER REVENUES

2,523,227

### OTHER REVENUES

State revenues, capital	214,459
Local revenues, capital	<u>4,188</u>
<b>TOTAL OTHER REVENUES</b>	<u><b>218,647</b></u>

### CHANGE IN NET POSITION

2,741,874

### NET POSITION, BEGINNING OF YEAR, AS RESTATED

12,628,672

### NET POSITION, END OF YEAR

\$ 15,370,546

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

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

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### CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 5,059,405
Federal, State, and local grants and contracts, noncapital	11,664,415
Payments to scholarships and grants	(9,435,644)
Payments to vendors for supplies and services	(19,432,637)
Payments to or on behalf of employees	<u>(32,699,358)</u>
<b>Net Cash Flows From Operating Activities</b>	<b><u>(44,843,819)</u></b>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	15,292,076
Noncapital grants and contracts	8,377,991
Property taxes - nondebt related	21,659,999
State taxes and other apportionments	2,812,059
Other nonoperating	<u>230,318</u>
<b>Net Cash Flows From Noncapital Financing Activities</b>	<b><u>48,372,443</u></b>

### CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(659,904)
Accreted interest from capital debt	2,093,911
State revenue, capital projects	214,459
Local revenue, capital projects	4,188
Property taxes - related to capital debt	7,956,047
Principal paid on capital debt	(7,851,358)
Interest paid on capital debt	(3,428,915)
Interest received on capital asset-related debt	31,472
Deferred charges on refunding	<u>1,202,816</u>
<b>Net Cash Flows From Capital Financing Activities</b>	<b><u>(437,284)</u></b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	<u>321,814</u>
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### NET CHANGE IN CASH AND CASH EQUIVALENTS

3,413,154

### CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

36,615,692

### CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 40,028,846

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

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

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

Operating Loss	<u>\$ (50,207,135)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation	4,708,676
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:	
Receivables	645,939
Accounts payable	278,413
Unearned revenue	527,424
Compensated absences	(69)
Early retirement plan	656,560
Claims liability	116,940
Aggregate net OPEB liability	(145,193)
Aggregate net pension liability	4,358,856
Deferred outflows of resources related to OPEB	(1,827,907)
Deferred outflows of resources related to pensions	(4,507,588)
Deferred inflows of resources related to pensions	<u>551,265</u>
Total Adjustments	<u>5,363,316</u>
<b>Net Cash Flows From Operating Activities</b>	<u><u>\$ (44,843,819)</u></u>

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

Cash in banks	\$ 605,909
Cash in county treasury	<u>39,422,937</u>
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 40,028,846</u></u>

### NON CASH TRANSACTIONS

On behalf payments for benefits	\$ 1,241,425
California College Promise Grants	<u>3,972,343</u>
	<u><u>\$ 5,213,768</u></u>

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

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

	<b>Retiree OPEB Trust</b>	<b>Other Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 717,058	\$ 947,894
Investments	4,360,427	86,435	-
Accounts receivable	-	15,802	33,207
<b>Total Assets</b>	<u>4,360,427</u>	<u>819,295</u>	<u>\$ 981,101</u>
<b>LIABILITIES</b>			
Accounts payable	-	36,425	\$ 13,910
Due to primary government	-	97,165	207,635
Due to student groups	-	317,342	759,556
<b>Total Liabilities</b>	<u>-</u>	<u>450,932</u>	<u>\$ 981,101</u>
<b>NET POSITION</b>			
Restricted for postemployment benefits other than pensions	4,360,427	-	
Unrestricted	-	368,363	
<b>Total Net Position</b>	<u>\$ 4,360,427</u>	<u>\$ 368,363</u>	

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

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

	<b>Retiree OPEB Trust</b>	<b>Other Trust Funds</b>
<b>ADDITIONS</b>		
State revenues	\$ -	\$ 292,610
Interest and investment income	82,404	-
Net realized and unrealized gain	162,957	-
District contributions	1,827,907	-
Local revenues	-	2,242,186
<b>Total Additions</b>	<u>2,073,268</u>	<u>2,534,796</u>
<b>DEDUCTIONS</b>		
Services and operating expenditures	-	2,513,455
Administrative expenses	500	-
Benefit payments	1,297,047	-
<b>Total Deductions</b>	<u>1,297,547</u>	<u>2,513,455</u>
<b>CHANGE IN NET POSITION</b>	775,721	21,341
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>3,584,706</u>	<u>347,022</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,360,427</u>	<u>\$ 368,363</u>

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

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### *NOTE 1 - ORGANIZATION*

The Monterey Peninsula Community College District (the District) is a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to the local residents of the surrounding area. The District consists of one community college located in Monterey, California. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District operates under a locally elected five-member Board of Trustees form of government and provides higher education in the County of Monterey. The District currently operates one college campus located in the city of Monterey. 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 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. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District. The District has identified no component units.

### *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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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Nonexchange 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, 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:

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

### **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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Restricted Assets**

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

### **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. Management has analyzed these accounts and believes all amounts are fully collectable.

### **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 by 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.

### **Accrued Liabilities and Long-Term Obligations**

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

### **Debt Issuance Premiums**

Debt premiums are amortized over the life of the bonds using the straight-line method.

### **Deferred Charges on Refunding**

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

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **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.

### **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 CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from MPP's fiduciary net position have been determined on the same basis as they are reported by MPP. For this purpose, 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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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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 and academic employees who retire. 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.

### 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 general obligation bonds and lease revenue bonds, compensated absences, early retirement plan, claims liability, aggregate net OPEB liability, and the aggregate net pension liability with maturities greater than one year.

### Net Position

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The government-wide financial statements report \$9,285,527 of restricted net position.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The voters of the District passed a General Obligation Bond in 2002 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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **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, Supplemental Educational Opportunity 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.

### **Interfund Activity**

Interfund transfers and interfund receivables and payables for governmental activities 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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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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. Early implementation 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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### 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. The County investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy.

#### 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. 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

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Authorized Under Debt Agreements

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

### Summary of Deposits and Investments

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

Primary government	\$ 40,028,846
Fiduciary funds	6,111,814
Total Deposits and Investments	<u>\$ 46,140,660</u>
Cash on hand and in banks	2,245,861
Cash in revolving	25,000
Investments	43,869,799
Total Deposits and Investments	<u>\$ 46,140,660</u>

### 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 Monterey County Investment Pool, Mutual Funds, and the Master Trust.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
Monterey County Investment Pool	\$ 39,422,937	\$ 39,191,593	233
Mutual Funds	86,435	86,435	N/A
Master Trust	4,360,427	4,360,427	N/A
Total	<u>\$ 43,869,799</u>	<u>\$ 43,638,455</u>	

### 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 Monterey County Investment Pool, Mutual Funds, and the Master Trust are not required to be rated, nor have been rated as of June 30, 2018.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$1,719,100 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### **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:

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 Monterey County Investment Pool 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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 3 Inputs</u>	<u>Uncategorized</u>
Monterey County Investment Pool	\$ 39,191,593	\$ -	\$ -	\$ 39,191,593
Mutual Funds	86,435	86,435	-	-
Master Trust	4,360,427	-	4,360,427	-
Total	<u>\$ 43,638,455</u>	<u>\$ 86,435</u>	<u>\$ 4,360,427</u>	<u>\$ 39,191,593</u>

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

The following table summarizes the District's Level 3 reconciliation as of June 30, 2018:

	<u>Level 3 Inputs</u>
Investments at Fair Value	
Balance at July 1, 2017	\$ 3,584,706
Interest and investment income	82,404
Net realized and unrealized gain	162,957
District contributions	530,860
Administrative fees	(500)
Balance at June 30, 2018	<u>\$ 4,360,427</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### *NOTE 5 - ACCOUNTS RECEIVABLE*

Accounts receivable at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	<u>Primary Government</u>
Federal Government	
Categorical aid	\$ 323,966
State Government	
Categorical aid	308,713
Lottery	341,110
Local Sources	
Interest	116,111
Other local sources	<u>738,973</u>
Total	<u>\$ 1,828,873</u>
Student receivables	<u>\$ 146,211</u>
	<u>Fiduciary Funds</u>
Other local sources	<u>\$ 49,009</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 6 - CAPITAL ASSETS

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

	Balance <u>July 1, 2017</u>	Additions	Deductions	Balance <u>June 30, 2018</u>
Capital Assets Not Being Depreciated				
Land	\$ 9,900,000	\$ -	\$ -	\$ 9,900,000
Construction in progress	664,226	499,998	-	1,164,224
Total Capital Assets Not Being Depreciated	<u>10,564,226</u>	<u>499,998</u>	<u>-</u>	<u>11,064,224</u>
Capital Assets Being Depreciated				
Land improvements	29,021,320	-	-	29,021,320
Buildings and improvements	159,836,381	-	-	159,836,381
Furniture and equipment	8,219,187	172,995	-	8,392,182
Total Capital Assets Being Depreciated	<u>197,076,888</u>	<u>172,995</u>	<u>-</u>	<u>197,249,883</u>
Total Capital Assets	<u>207,641,114</u>	<u>672,993</u>	<u>-</u>	<u>208,314,107</u>
Less Accumulated Depreciation				
Land improvements	13,440,063	1,328,753	-	14,768,816
Buildings and improvements	28,453,834	3,048,672	-	31,502,506
Furniture and equipment	7,128,412	331,251	-	7,459,663
Total Accumulated Depreciation	<u>49,022,309</u>	<u>4,708,676</u>	<u>-</u>	<u>53,730,985</u>
Net Capital Assets	<u>\$158,618,805</u>	<u>\$ (4,035,683)</u>	<u>\$ -</u>	<u>\$154,583,122</u>

Depreciation expense for the year was \$4,708,676.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### *NOTE 7 - ACCOUNTS PAYABLE*

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

	<u>Primary Government</u>
Accrued payroll and benefits	\$ 887,829
Apportionment	2,533,391
State categorical	32,257
Other state sources	540,412
Construction	126,734
Community Hospital of Monterey Peninsula	457,130
Self-Insurance payables	538,142
Other vendor payables	848,174
Total	<u>\$ 5,964,069</u>
	<u>Fiduciary Funds</u>
Other payables	<u>\$ 50,335</u>

### *NOTE 8 - UNEARNED REVENUE*

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

	<u>Primary Government</u>
Federal categorical	\$ 43,412
State categorical	1,738,722
Other State	881,232
Student fees	1,153,294
Other local	733,413
Total	<u>\$ 4,550,073</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### *NOTE 9 - INTERFUND TRANSACTIONS*

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

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the 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 amounts owed to the primary government from the fiduciary funds was \$304,800.

#### **Interfund Operating Transfers**

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2018 fiscal year, there were no transfers between the primary government and the fiduciary funds.

**MONTEREY PENINSULA 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:

	(as restated)			Balance June 30, 2018	Due in One Year
	Balance July 1, 2017	Additions	Deductions		
<b>Bonds Payable</b>					
2002 General obligation bonds, Series B	\$ 200,000	\$ -	\$ -	\$ 200,000	\$ -
Unamortized premium	72,634	-	14,527	58,107	-
2002 General obligation bonds, Series C	3,000,000	-	3,000,000	-	-
Unamortized premium	1,233,370	-	1,233,370	-	-
2013 General obligation refunding bonds, Series A	18,360,000	-	420,000	17,940,000	425,000
Unamortized premium	1,577,750	-	378,660	1,199,090	-
2013 General obligation refunding bonds, Series B	11,035,000	-	2,690,000	8,345,000	2,735,000
2016 General obligation refunding bonds	106,348,153	2,093,911	30,000	108,412,064	3,480,000
Unamortized premium	1,107,014	-	64,801	1,042,213	-
Lease revenue bonds	40,000	-	20,000	20,000	20,000
<b>Total Bonds Payable</b>	<b>142,973,921</b>	<b>2,093,911</b>	<b>7,851,358</b>	<b>137,216,474</b>	<b>6,660,000</b>
<b>Other Liabilities</b>					
Compensated absences	904,037	-	69	903,968	-
Early retirement plan	-	820,700	164,140	656,560	164,140
Claims liability	679,926	116,940	-	796,866	-
Aggregate net OPEB liability	7,069,456	-	145,193	6,924,263	-
Aggregate net pension liability	36,598,486	4,358,856	-	40,957,342	-
<b>Total Other Liabilities</b>	<b>45,251,905</b>	<b>5,296,496</b>	<b>309,402</b>	<b>50,238,999</b>	<b>164,140</b>
<b>Total Long-Term Obligations</b>	<b>\$ 188,225,826</b>	<b>\$ 7,390,407</b>	<b>\$ 8,160,760</b>	<b>\$ 187,455,473</b>	<b>\$ 6,824,140</b>

**Description of Debt**

Payments on the general obligation bonds are to be made by the Bond Interest and Redemption Fund with local property tax collections. The compensated absences and aggregate net pension liability will be paid by the fund for which the employee worked. The claims liability will be paid by the Internal Service Fund. The aggregate net OPEB liability and the early retirement plan will be paid by the General Unrestricted Fund. Payments on the lease revenue bonds are made by the Student Center Fund.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### General Obligation Bonds

#### 2002 General Obligation Bonds, Series B

During January 2008, the District issued the 2008 General Obligation Bonds, Series B, for \$9,004,530. The bonds issued included \$8,440,000 of Current Interest bonds and \$564,530 of Capital Appreciation bonds. The Capital Appreciation bonds have a maturing principal balance of \$1,000,000. The Current Interest bonds mature beginning on August 1, 2008 through August 1, 2021, with interest rates ranging from 3.80 percent to 5.35 percent. The Capital Appreciation bonds mature beginning on August 1, 2015, with yield rate of 5.10 percent. At June 30, 2018, the principal balance outstanding was \$200,000. Unamortized premium received on issuance of the bonds amounted to \$58,107 as of June 30, 2018.

#### 2002 General Obligation Bonds, Series C

During January 2008, the District issued the 2008 General Obligation Bonds, Series C, for \$95,994,770. The bonds issued included \$44,430,000 of Current Interest bonds and \$51,564,770 of Capital Appreciation bonds. These bonds were partially refunded with the issuance of the 2016 General Obligation Refunding Bonds. At June 30, 2018, the principal balance on the remaining bonds was paid in full.

#### 2013 General Obligation Refunding Bonds, Series A and B

In April 2013, the District issued the \$33,820,000 2013 General Obligation Refunding Bonds, Series A and B. The bonds have a final maturity to occur on August 1, 2021, with interest rates from .335 to 4.00 percent. The net proceeds of \$36,975,456 (representing the principal amount of \$33,820,000 plus premium on issuance of \$3,155,456) from the issuance were used to advance refund a portion of the District's outstanding 2002 General Obligation Bonds, Series C and to pay the cost of issuance associated with the refunding bonds. In addition, the net proceeds were used to advance refund a portion of the District's outstanding 2005 General Obligation Refunding Bonds and to pay the cost of the issuance associated with the refunding bonds. 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 gain of \$1,310,546 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 1.367 percent. These deferred charges on refunding were fully amortized as of June 30, 2018. At June 30, 2018, the principal balance outstanding was \$26,285,000. Unamortized premium received on issuance of the bonds amounted to \$1,199,090 as of June 30, 2018.

#### 2016 General Obligation Refunding Bonds

In May 2016, the District issued the \$105,348,522 2016 General Obligation Refunding Bonds. The bonds have a final maturity to occur on August 1, 2034, with interest rates from 1.65 to 4.00 percent. The net proceeds of \$106,531,137 (representing the principal amount of \$105,348,522 plus premium on issuance of \$1,182,615) from the issuance were used to advance refund a portion of the District's outstanding 2002 General Obligation Bonds, Series C and to pay the cost of issuance associated with the refunding bonds. 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 gain of \$20,455,151 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.76 percent. At June 30, 2018, the principal balance outstanding was \$108,412,064. Unamortized premium received on issuance of the bonds and deferred charges on refunding amounted to \$1,042,213 and \$7,698,621, respectively, as of June 30, 2018.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Accreted Interest Additions	Redeemed	Bonds Outstanding June 30, 2018
2008	08/01/2021	3.80%-5.35%	\$ 9,004,530	\$ 200,000	\$ -	\$ -	\$ 200,000
2008	08/01/2017	3.50%-5.00%	95,994,770	3,000,000	-	3,000,000	-
2013	08/01/2021	1.50%-4.00%	19,235,000	18,360,000	-	420,000	17,940,000
2013	08/01/2020	0.335%-2.289%	14,585,000	11,035,000	-	2,690,000	8,345,000
2016	08/01/2034	1.65%-4.00%	105,348,522	106,348,153	2,093,911	30,000	108,412,064
				<u>\$ 138,943,153</u>	<u>\$ 2,093,911</u>	<u>\$ 6,140,000</u>	<u>\$ 134,897,064</u>

The 2002 General Obligation Bonds, Series B mature through 2022 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2019	\$ -	\$ 10,700	\$ 10,700
2020	-	10,700	10,700
2021	-	10,700	10,700
2022	200,000	5,350	205,350
Total	<u>\$ 200,000</u>	<u>\$ 37,450</u>	<u>\$ 237,450</u>

The 2013 General Obligation Refunding Bonds, Series A mature through 2022 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2019	\$ 425,000	\$ 675,688	\$ 1,100,688
2020	4,405,000	598,450	5,003,450
2021	4,920,000	426,000	5,346,000
2022	8,190,000	163,800	8,353,800
Total	<u>\$ 17,940,000</u>	<u>\$ 1,863,938</u>	<u>\$ 19,803,938</u>

The 2013 General Obligation Refunding Bonds, Series B mature through 2021 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2019	\$ 2,735,000	\$ 144,587	\$ 2,879,587
2020	2,780,000	93,120	2,873,120
2021	2,830,000	32,389	2,862,389
Total	<u>\$ 8,345,000</u>	<u>\$ 270,096</u>	<u>\$ 8,615,096</u>

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
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The 2016 General Obligation Refunding Bond, Series B mature through 2035 as follows:

Year Ending June 30,	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2019	\$ 3,480,000	\$ -	\$ 810,450	\$ 4,290,450
2020	-	-	740,850	740,850
2021	-	-	740,850	740,850
2022	-	-	740,850	740,850
2023	6,737,864	517,136	740,850	7,995,850
2024-2028	35,990,682	6,694,318	3,704,250	46,389,250
2029-2033	37,572,966	17,467,034	3,704,250	58,744,250
2034-2035	24,630,552	1,764,448	780,675	27,175,675
Total	<u>\$ 108,412,064</u>	<u>\$ 26,442,936</u>	<u>\$ 11,963,025</u>	<u>\$ 146,818,025</u>

**Lease Revenue Bonds**

Lease revenue bonds for \$500,000 were issued in 1968 to finance improvements to the student center. The bonds are collateralized by revenue from the bookstore and student center building fees collected at registration. Bond principal matures in the fiscal year 2019; interest rates are variable, with a maximum rate of 7.0 percent per annum. The annual debt service for these bonds is provided by transfers from the Student Center Fund to the Debt Service Fund. The principal balance at June 30, 2018, was \$20,000.

Revenue bonds mature as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2019	<u>\$ 20,000</u>	<u>\$ 300</u>	<u>\$ 20,300</u>

**Compensated Absences**

At June 30, 2018, the liability for compensated absences was \$903,968.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
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**Early Retirement Plan**

The District has entered into an agreement to provide certain benefits to employees participating in the early retirement incentive program. The District will pay a total of \$656,560 on behalf of retirees through the 2022 year with the following schedule:

Year Ending June 30,		
2019	\$	164,140
2020		164,140
2021		164,140
2022		164,140
Total	\$	<u>656,560</u>

**Aggregate Net Other Postemployment Benefits (OPEB) Liability**

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

	Aggregate Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 6,711,739	\$ 1,827,907	\$ (116,338)
Medicare Premium Payment (MPP) Program	212,524	-	(28,855)
Total	<u>\$ 6,924,263</u>	<u>\$ 1,827,907</u>	<u>\$ (145,193)</u>

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 the Community College League of California (CCLC) Retiree Health Benefit Program Joint Powers Authority.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### *Plan Membership*

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

Inactive employees or beneficiaries currently receiving benefit payments	114
Active employees	215
	<hr/>
	329
	<hr/>

### **Monterey Peninsula Community College District Retiree Health Benefit Program Trust**

The Monterey Peninsula Community College District Retiree Health Benefit Program 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 Community College League of California (CCLC) Retiree Health Benefit Program Joint Powers Authority 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 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.

### *Contributions*

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by management and the District's governing board. For fiscal year 2016-2017, the District contributed \$582,995 to the Plan, of which \$470,981 was used for current premiums and \$112,014 was a contribution to the irrevocable OPEB Trust.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### 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:

Asset Class	Target Allocation
US Large Cap	60%
US Small Cap	15%
Long-Term Corporate Bonds	20%
Short-Term Government Fixed Income	5%
Total	100%

#### *Rate of Return*

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 9.20 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 \$6,711,739 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 June 30, 2016. The components of the net OPEB liability of the District at June 30, 2017, were as follows:

Total OPEB liability	\$ 10,296,445
Plan fiduciary net position	<u>3,584,706</u>
District's net OPEB liability	<u><u>\$ 6,711,739</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u><u>35%</u></u>

#### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2016 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
Investment rate of return	6.50 percent
Healthcare cost trend rates	4.00 percent

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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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, 2016 valuation were based on the results of an actual experience study as of July 2016.

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>
US Large Cap	7.80%
US Small Cap	7.80%
Long-Term Corporate Bonds	5.30%
Short-Term Government Fixed Income	6.25%

### *Discount Rate*

The discount rate used to measure the total OPEB liability was 6.50 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.

**MONTEREY PENINSULA 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	\$ 10,005,691	\$ 3,177,614	\$ 6,828,077
Service cost	234,699	-	234,699
Interest	639,050	-	639,050
Contributions - employer	-	695,009	(695,009)
Net investment income	-	295,578	(295,578)
Benefit payments	(582,995)	(582,995)	-
Administrative expense	-	(500)	500
Net change in total OPEB liability	<u>290,754</u>	<u>407,092</u>	<u>(116,338)</u>
Balance at June 30, 2017	<u>\$ 10,296,445</u>	<u>\$ 3,584,706</u>	<u>\$ 6,711,739</u>

There were no changes in benefit terms since the previous valuation.

Changes of assumptions and other inputs reflect a change in the discount rate from 6.3 percent to 6.5 percent since the previous valuation.

*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 (5.50%)	\$ 7,071,521
Current discount rate (6.50%)	6,711,739
1% increase (7.50%)	5,828,939

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare 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 healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (3.00%)	\$ 6,024,717
Current healthcare cost trend rate (4.00%)	6,711,739
1% increase (5.00%)	6,802,973

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Deferred Outflows of Resources Related to OPEB**

At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to measurement date of \$1,827,907.

### **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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB**

At June 30, 2018, the District reported a liability of \$212,524 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 periods of June 30, 2017 and June 30, 2016, was 0.0505 percent and 0.0516, respectively, resulting in a net decrease in the proportionate share of 0.0011 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of (\$28,855).

### **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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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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%)	\$ 235,279
Current discount rate (3.58%)	212,524
1% increase (4.58%)	190,390

# MONTEREY PENINSULA 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 Medicare costs trend rates that are one percent lower or higher than the current rates:

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 192,048
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	212,524
1% increase (4.7% Part A and 5.1% Part B)	232,795

### **Aggregate Net Pension Liability**

At June 30, 2018, the liability for the aggregate net pension liability amounted to \$40,957,342. See Note 11 for additional information.

### **NOTE 11 - 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.

For the fiscal year ended June 30, 2018, the District reported the net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources 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	\$ 25,804,391	\$ 7,056,784	\$ 3,405,117	\$ 2,245,284
CalPERS	15,152,951	4,981,538	1,317,383	2,039,196
Total	<u>\$ 40,957,342</u>	<u>\$ 12,038,322</u>	<u>\$ 4,722,500</u>	<u>\$ 4,284,480</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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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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 nonemployer contributing entity to the STRP.

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

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

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

### Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The 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 \$2,180,792.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### 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	\$	25,804,391
State's proportionate share of net pension liability associated with the District		15,265,660
Total	\$	<u>41,070,051</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 0.0279 percent and 0.0290 percent, respectively, resulting in a net decrease in the proportionate share of 0.0011 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$2,245,284. In addition, the District recognized pension expense and revenue of \$1,536,635 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	\$ 2,180,792	\$ -
Net change in proportionate share of net pension liability	-	2,267,804
Differences between projected and actual earnings on the pension plan investments	-	687,243
Differences between expected and actual experience in the measurement of the total pension liability	95,427	450,070
Changes of assumptions	4,780,565	-
Total	<u>\$ 7,056,784</u>	<u>\$ 3,405,117</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.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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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 June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (571,330)
2020	432,328
2021	62,340
2022	(610,581)
Total	<u>\$ (687,243)</u>

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	\$ 277,349
2020	277,349
2021	277,349
2022	277,350
2023	355,808
Thereafter	692,913
Total	<u>\$ 2,158,118</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%

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 37,889,038
Current discount rate (7.10%)	25,804,391
1% increase (8.10%)	15,996,881

### **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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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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		
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%

### 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 \$1,701,155.

### 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 \$15,152,951. 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 0.0635 percent and 0.0665 percent, respectively, resulting in a net decrease in the proportionate share of 0.0030 percent.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$2,039,196. 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	\$ 1,701,155	\$ -
Net change in proportionate share of net pension liability	-	1,138,976
Differences between projected and actual earnings on the pension plan investments	524,188	-
Differences between expected and actual experience in the measurement of the total pension liability	542,868	-
Changes of assumptions	2,213,327	178,407
Total	<u>\$ 4,981,538</u>	<u>\$ 1,317,383</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 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 June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (14,205)
2020	604,799
2021	220,638
2022	(287,044)
Total	<u>\$ 524,188</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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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 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 230,444
2020	559,455
2021	648,913
Total	<u>\$ 1,438,812</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

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.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
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.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 22,294,846
Current discount rate (7.15%)	15,152,951
1% increase (8.15%)	9,228,150

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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 \$1,241,425 (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 plan, 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.

### NOTE 12 - RISK MANAGEMENT

#### Claims Liability

The District records an estimated liability for healthcare claims against the District. Claims liability is based on the ultimate cost of the reported claims including future claim adjustment expense and an estimate for claims incurred, but not reported, based on historical experience. The projected liability for unpaid losses reported in the Statement of Net Position is \$796,866 and was calculated using claim lag reports and completion factor methodology.

	<u>Health Care</u>
Liability Balance, July 1, 2016	\$ -
Claims and changes in estimates	7,627,721
Claims payments	<u>(6,947,795)</u>
Liability Balance, June 30, 2017	679,926
Claims and changes in estimates	8,422,209
Claims payments	<u>(8,305,269)</u>
Liability Balance, June 30, 2018	<u>\$ 796,866</u>
Assets available to pay claims at June 30, 2018	<u>\$ 4,394,778</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Property and Liability Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions. The District purchases coverage through their participation in the Bay Area Community College District Joint Powers Authority (BACCD JPA). The coverage provides liability coverage up to \$50 million per occurrence. In addition, through participation in the BACCD JPA, the District also has coverage for damage to or loss of property up to \$250 million per occurrence. The District liability and property coverage is subject to a \$10,000 per occurrence deductible. The District also provides health insurance benefits to District employees, their families, and retirees of the District.

### Joint Powers Authority Risk Pools

During fiscal year ended June 30, 2018, the District contracted with the Bay Area Community College District Joint Powers Authority for property and liability insurance coverage. During the past three years the District had no claims that exceeded the limit of liability provided by the BACCD JPA. Additionally, there has been no reduction in the coverage provided by the BACCD JPA.

### Workers' Compensation

For fiscal year 2017-2018, the District participated in the Northern California Community College Pool, an insurance purchasing pool. The intent of the Pool is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Pool. 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 Pool. Each participant pays its workers' compensation premium based on its individual rate. Participation in the Pool is limited to community college districts that can meet the Pool's selection criteria.

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Northern California Community College JPA	Workers' Compensation	\$ 1,000,000
Bay Area Community College District JPA	Property	250,000,000
Bay Area Community College District JPA	General Liability	50,000,000

### ***NOTE 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES***

The District is a member of the Bay Area Community College District (BACCD) JPA, the Northern California Community College Pool (NCCCCP), and the Alameda County Schools Insurance Group (ACSIG) Joint Powers Authority. The District pays annual premiums for its property and liability, health, workers' compensation, dental, and vision coverage. The relationship between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made payments of \$252,436, \$507,898, and \$327,716, to BACCD, NCCCCP, and ACSIG, respectively.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### *NOTE 14 - COMMITMENTS AND CONTINGENCIES*

#### **Grants**

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

### *NOTE 15 - 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	\$ 19,087,650
Inclusion of the aggregate net OPEB liability from the adoption of GASB Statement No. 75	<u>(6,458,978)</u>
Net Position - Beginning, as Restated	<u>\$ 12,628,672</u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

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	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 234,699
Interest	639,050
Benefit payments	<u>(582,995)</u>
<b>Net changes in total OPEB liability</b>	290,754
<b>Total OPEB Liability - beginning</b>	<u>10,005,691</u>
<b>Total OPEB Liability - ending (a)</b>	<u><u>\$ 10,296,445</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 695,009
Net investment income	295,578
Benefit payments	(582,995)
Administrative expense	<u>(500)</u>
<b>Net change in plan fiduciary net position</b>	407,092
<b>Plan fiduciary net position - beginning</b>	<u>3,177,614</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 3,584,706</u></u>
<b>District's net OPEB liability - ending (a) - (b)</b>	<u><u>\$ 6,711,739</u></u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<u>34.81%</u>
<b>Covered-employee payroll</b>	<u>\$ 23,494,589</u>
<b>District's net OPEB liability as a percentage of covered-employee payroll</b>	<u><u>28.57%</u></u>

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

See accompanying note to required supplementary information.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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2018

9.20%

Annual money-weighted rate of return, net of investment expense

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

See accompanying note to required supplementary information.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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	<u>2018</u>
Year ended June 30,	
District's proportion of the net OPEB liability	<u>0.0505%</u>
District's proportionate share of the net OPEB liability	<u>\$ 212,524</u>
District's covered-employee payroll	<u>N/A<sup>1</sup></u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A<sup>1</sup></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

<sup>1</sup> 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.

See accompanying note to required supplementary information.

**MONTEREY PENINSULA 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>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.0279%</u>	<u>0.0290%</u>
District's proportionate share of the net pension liability	\$ 25,804,391	\$ 23,455,119
State's proportionate share of the net pension liability associated with the District	<u>15,265,660</u>	<u>13,352,581</u>
Total	<u>\$ 41,070,051</u>	<u>\$ 36,807,700</u>
District's covered-employee payroll	<u>\$ 15,411,582</u>	<u>\$ 15,041,901</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>167.44%</u>	<u>155.93%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.0635%</u>	<u>0.0665%</u>
District's proportionate share of the net pension liability	<u>\$ 15,152,951</u>	<u>\$ 13,143,367</u>
District's covered-employee payroll	<u>\$ 8,083,007</u>	<u>\$ 7,987,128</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>187.47%</u>	<u>164.56%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.0317%</u>	<u>0.0320%</u>
\$ 21,365,382	\$ 18,691,915
<u>11,299,932</u>	<u>11,286,985</u>
<u>\$ 32,665,314</u>	<u>\$ 29,978,900</u>
<u>\$ 14,507,218</u>	<u>\$ 14,503,338</u>
<u>147.27%</u>	<u>128.88%</u>
<u>74%</u>	<u>77%</u>
<u>0.0728%</u>	<u>0.0813%</u>
<u>\$ 10,727,955</u>	<u>\$ 9,225,415</u>
<u>\$ 8,057,608</u>	<u>\$ 8,531,836</u>
<u>133.14%</u>	<u>108.13%</u>
<u>79%</u>	<u>83%</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 2,180,792	\$ 1,938,777
Contributions in relation to the contractually required contribution	<u>2,180,792</u>	<u>1,938,777</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 15,112,904</u>	<u>\$ 15,411,582</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 1,701,155	\$ 1,122,568
Contributions in relation to the contractually required contribution	<u>1,701,155</u>	<u>1,122,568</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 10,953,287</u>	<u>\$ 8,083,007</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
\$ 1,613,996	\$ 1,288,241
<u>1,613,996</u>	<u>1,288,241</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 15,041,901	\$ 14,507,218
<u>10.73%</u>	<u>8.88%</u>
\$ 946,235	\$ 948,461
<u>946,235</u>	<u>948,461</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 7,987,128	\$ 8,057,608
<u>11.847%</u>	<u>11.771%</u>

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### *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 benefit terms since the previous valuation.

*Changes of Assumptions* - Changes of assumptions and other inputs reflect a change in the discount rate from 6.3 percent to 6.5 percent 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.

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***SUPPLEMENTARY INFORMATION***

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# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## DISTRICT ORGANIZATION JUNE 30, 2018

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The Monterey Peninsula Community College District was established in 1961. The District provides higher education to communities within Monterey County. The District currently operates one campus located in Monterey and one education center. There were no changes to the District's boundaries during the year. The District's college 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.

### BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Marilyn Dunn Gustafson	Chair	2020
Mr. Charles Brown	Vice Chair	2018
Dr. Margaret-Anne Coppemoll	Trustee	2018
Mr. Rick Johnson	Trustee	2020
Dr. Loren Steck	Trustee	2020
Ms. Golnoush Pak	Student Trustee	2018

### ADMINISTRATION

Dr. Walter Tribley	Superintendent/President
Mr. David Martin	Vice President, Administrative Services
Ms. Kiran Kamath	Vice President, Academic Affairs
Mr. Laurence Walker	Interim, Vice President, Student Services
Ms. Rebecca Michael	Vice President, Advancement

See accompanying note to supplementary information.

**MONTEREY PENINSULA 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	Amount Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ 120,778	\$ -
Federal Work-Study Program	84.033		121,771	-
Federal Pell Grant Program	84.063		6,521,498	-
Federal Direct Student Loans	84.268		1,077,282	-
Total Student Financial Assistance Cluster			<u>7,841,329</u>	<u>-</u>
TRIO Cluster				
Student Support Services Program	84.042A		294,139	-
Upward Bound Program	84.047A		442,851	-
Upward Bound - Math and Science	84.047M		446,968	-
Total TRIO Cluster			<u>1,183,958</u>	<u>-</u>
Passed through California Community Colleges Chancellor's Office:				
Career and Technical Education Act, Perkins Title I, Part C	84.048A	17-C01-033	146,855	-
CTE Transitions	84.048A	17-112-033	41,592	-
Total U.S. Department of Education			<u>9,213,734</u>	<u>-</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through California Department of Education (CDE):				
Child and Adult Care Food Program	10.558	04130-CACFP- 27-CC-IC	41,691	-
Research and Development Cluster				
<b>NATIONAL SCIENCE FOUNDATION</b>				
Marine Technology Mentoring and Internship Program on Oceanographic Research Vessels	47.050		68,631	-
Marine Advanced Technology Education Resource Center (MATE)	47.076		191,173	-
MATE ROV Competitions: Providing Pathways to the Ocean STEM Workforce	47.076		324,728	35,944
Marine Advanced Technology Education Support Center	47.076		450,360	-
Passed through San Mateo Community College District				
Creating Alternative Learning Strategies for Transfer Engineering Programs	47.076	1430789	27,152	-
Total National Science Foundation			<u>1,062,044</u>	<u>35,944</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through Regents of the University of California				
Baccalaureate Bridge to the Biomedical Sciences Program	93.859	S0184268	7,941	-
Total Research and Development Cluster			<u>1,069,985</u>	<u>35,944</u>

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

See accompanying note to supplementary information.

**MONTEREY PENINSULA 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	Amount Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through California Community Colleges Chancellor's Office:				
Temporary Assistance for Needy Families (TANF)	93.558	[1]	\$ 41,054	\$ -
Passed through Yosemite Community College District				
Child Development Training Consortium	93.575	17-18-3969	<u>14,311</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>55,365</u>	<u>-</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 10,380,775</u>	<u>\$ 35,944</u>

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

See accompanying note to supplementary information.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

PROGRAM	Program Revenues					Program Expenditures
	Cash Received	Accounts Receivable	Accounts Payable	Unearned Revenue	Total Revenue	
Adult Education Block Grant	\$ 108,500	\$ -	\$ -	\$ 43,641	\$ 64,859	\$ 64,859
Adult Education Data and Accountability	29,000	-	-	-	29,000	29,000
Assessment, Remediation, and Retention for Associate Degree Nursing	-	57,000	-	-	57,000	57,000
BACCC Bay Area Workforce	957,743	19,917	-	622,735	354,925	354,925
Basic Skills	318,535	-	-	206,243	112,292	112,292
Board Financial Assistance Program (BFAP) (SFAA)	241,143	-	-	-	241,143	241,143
California Career Pathways Trust Stem Core Program	56,050	26,913	-	2,922	80,041	80,041
CalWORKS	207,713	-	-	-	207,713	207,713
Campus Safety Program	17,884	-	-	17,884	-	-
Cap and Gown Grant	17,500	-	-	17,500	-	-
CARE	156,641	-	-	5,294	151,347	151,347
Child and Adult Care Food Program	2,212	-	-	-	2,212	2,212
California State Preschool Program	352,766	3,737	-	-	356,503	356,503
City College of San Francisco	1,782	6,000	-	-	7,782	7,782
Community College Completion Grant	129,000	-	-	80,250	48,750	48,750
CTE Data Unlocked	49,872	-	-	49,872	-	-
CTE Enhancement Fund	6,000	-	6,000	-	-	-
Disabled Student Programs and Service (DSPS)	698,557	-	26,257	-	672,300	672,300
Enrollment Growth	-	142,527	-	-	142,527	142,527
Extended Opportunity Programs and Service (EOPS)	1,002,751	-	-	3,859	998,892	998,892
First 5 Workforce Development Incentive Project	45,238	37,619	-	-	82,857	82,857
Full-Time Student Success Grant	326,906	-	-	5,906	321,000	321,000
Guided Pathways	375,701	-	-	375,701	-	-
Hunger Free Campus Support	13,550	-	-	11,615	1,935	1,935
Instructional Materials-One Time fund	823	-	-	-	823	823
Monterey County Child Care Planning Council	8,024	-	-	4,437	3,587	3,587
Non Resident Dreamer Emergency Aid	35,304	-	-	1,135	34,169	34,169
Physical Plant and Instructional Support Block Grant	518,545	-	-	76,480	442,065	442,065
Quality Matters (CDC)	41,067	-	-	41,067	-	-
Song-Brown Nursing Education	45,000	15,000	-	-	60,000	60,000
Staff Diversity	77,583	-	-	12,246	65,337	65,337
Student Support and Success Program - Credit	1,999,046	-	-	101,214	1,897,832	1,897,832
Student Support and Success Program - Noncredit	143,076	-	-	58,721	84,355	84,355
Student Support and Success Program- Equity	685,777	-	-	-	685,777	685,777
	<u>\$ 8,669,289</u>	<u>\$ 308,713</u>	<u>\$ 32,257</u>	<u>\$ 1,738,722</u>	<u>\$ 7,207,023</u>	<u>\$ 7,207,023</u>

See accompanying note to supplementary information.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

CATEGORIES	**Revised Reported Data	Audit Adjustments	Audited Data
<b>A. Summer Intersession (Summer 2017 only)</b>			
1. Noncredit*	47.01	-	47.01
2. Credit	247.05	-	247.05
<b>B. Summer Intersession (Summer 2018 - Prior to July 1, 2018)</b>			
1. Noncredit*	-	-	-
2. Credit	350.25	-	350.25
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	3,424.48	-	3,424.48
(b) Daily Census Contact Hours	379.06	-	379.06
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	270.90	-	270.90
(b) Credit	702.68	-	702.68
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	660.19	-	660.19
(b) Daily Census Contact Hours	192.59	-	192.59
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
<b>D. Total FTES</b>	<u>6,274.21</u>	<u>-</u>	<u>6,274.21</u>
<b>SUPPLEMENTAL INFORMATION (Subset of Above Information)</b>			
<b>E. In-Service Training Courses (FTES)</b>	67.44	-	67.44
<b>H. Basic Skills Courses and Immigrant Education</b>			
1. Noncredit*	101.63	-	101.63
2. Credit	170.67	-	170.67
<b><u>CCFS-320 Addendum</u></b>			
CDCP Noncredit FTES	87.89	-	87.89
Centers FTES			
1. Noncredit*	55.45	-	55.45
2. Credit	578.67	-	578.67

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

\*\* Annual report revised as of October 31, 2018.

See accompanying note to supplementary information.

**MONTEREY PENINSULA 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	Audited Data	Reported Data	Audit Adjustments	Audited Data
<b><u>Academic Salaries</u></b>							
<b>Instructional Salaries</b>							
Contract or Regular	1100	\$ 6,483,355	\$ -	\$ 6,483,355	\$ 6,483,355	\$ -	\$ 6,483,355
Other	1300	5,002,652	-	5,002,652	5,040,921	-	5,040,921
<b>Total Instructional Salaries</b>		<b>11,486,007</b>	<b>-</b>	<b>11,486,007</b>	<b>11,524,276</b>	<b>-</b>	<b>11,524,276</b>
<b>Noninstructional Salaries</b>							
Contract or Regular	1200	-	-	-	2,586,128	-	2,586,128
Other	1400	-	-	-	304,856	-	304,856
<b>Total Noninstructional Salaries</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>2,890,984</b>	<b>-</b>	<b>2,890,984</b>
<b>Total Academic Salaries</b>		<b>11,486,007</b>	<b>-</b>	<b>11,486,007</b>	<b>14,415,260</b>	<b>-</b>	<b>14,415,260</b>
<b><u>Classified Salaries</u></b>							
<b>Noninstructional Salaries</b>							
Regular Status	2100	-	-	-	5,084,657	-	5,084,657
Other	2300	-	-	-	445,194	-	445,194
<b>Total Noninstructional Salaries</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>5,529,851</b>	<b>-</b>	<b>5,529,851</b>
<b>Instructional Aides</b>							
Regular Status	2200	475,707	-	475,707	659,233	-	659,233
Other	2400	454,221	-	454,221	485,541	-	485,541
<b>Total Instructional Aides</b>		<b>929,928</b>	<b>-</b>	<b>929,928</b>	<b>1,144,774</b>	<b>-</b>	<b>1,144,774</b>
<b>Total Classified Salaries</b>		<b>929,928</b>	<b>-</b>	<b>929,928</b>	<b>6,674,625</b>	<b>-</b>	<b>6,674,625</b>
Employee Benefits	3000	6,564,589	-	6,564,589	13,255,826	-	13,255,826
Supplies and Material	4000	-	-	-	617,133	-	617,133
Other Operating Expenses	5000	2,251,961	-	2,251,961	5,746,189	-	5,746,189
Equipment Replacement	6420	-	-	-	343,484	-	343,484
<b>Total Expenditures Prior to Exclusions</b>		<b>21,232,485</b>	<b>-</b>	<b>21,232,485</b>	<b>41,052,517</b>	<b>-</b>	<b>41,052,517</b>

See accompanying note to supplementary information.

**MONTEREY PENINSULA 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	Audited Data	Reported Data	Audit Adjustments	Audited Data
<b><u>Exclusions</u></b>							
<b>Activities to Exclude</b>							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	164,140	-	164,140
<b>Objects to Exclude</b>							
Rents and Leases	5060	-	-	-	649,294	-	649,294
Lottery Expenditures							
Academic Salaries	1000	1,094,035	-	1,094,035	1,094,035	-	1,094,035
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	-	-	-	-	-	-
<b>Total Supplies and Materials</b>		-	-	-	-	-	-

See accompanying note to supplementary information.

**MONTEREY PENINSULA 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	Audited Data	Reported Data	Audit Adjustments	Audited Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Outlay	6000						
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
<b>Total Equipment</b>		-	-	-	-	-	-
<b>Total Capital Outlay</b>		-	-	-	-	-	-
Other Outgo	7000	-	-	-	165,816	-	165,816
<b>Total Exclusions</b>		1,094,035	-	1,094,035	2,073,285	-	2,073,285
<b>Total for ECS 84362, 50 Percent Law</b>		\$ 20,138,450	\$ -	\$ 20,138,450	\$ 38,979,232	\$ -	\$ 38,979,232
<b>Percent of CEE (Instructional Salary Cost/Total CEE)</b>		51.66%		51.66%	100.00%		100.00%
<b>50% of Current Expense of Education</b>					\$ 19,489,616		\$ 19,489,616

See accompanying note to supplementary information.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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<b>Activity Classification</b>	<b>Object Code</b>	<b>Unrestricted</b>			
EPA Revenue:	8630				\$ 5,335,400
<b>Activity Classification</b>	<b>Activity Code</b>	<b>Salaries and Benefits (Obj 1000-3000)</b>	<b>Operating Expenses (Obj 4000-5000)</b>	<b>Capital Outlay (Obj 6000)</b>	<b>Total</b>
Instructional Activities	1000-5900	\$ 5,335,400	\$ -	\$ -	\$ 5,335,400
<b>Total Expenditures for EPA</b>		\$ 5,335,400	\$ -	\$ -	\$ 5,335,400
<b>Revenues Less Expenditures</b>					\$ -

See accompanying note to supplementary information.

**MONTEREY PENINSULA 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 Balances and Retained Earnings**

General Fund	\$ 8,145,519	
Special Revenue Funds	1,265,245	
Debt Service Fund	8,327,674	
Capital Projects Fund	8,924,935	
Self Insurance Fund	4,284,761	
Student Financial Aid Fund	<u>49,588</u>	
<b>Total Fund Balances and Retained Earnings</b>		<b>\$ 30,997,722</b>

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:	208,314,107	
Accumulated depreciation is:	<u>(53,730,985)</u>	154,583,122

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (394,041)

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. 7,698,621

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	3,881,947	
Differences between projected and actual earnings on pension plan investments	524,188	
Differences between expected and actual experience in the measurement of the total pension liability	638,295	
Changes of assumptions	<u>6,993,892</u>	
<b>Total Deferred Outflows of Resources Related to Pensions</b>		<b>12,038,322</b>

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 the net pension liability	(3,406,780)	
Differences between projected and actual earnings on pension plan investments	(687,243)	
Differences between expected and actual experience in the measurement of the total pension liability	(450,070)	
Changes of assumptions	<u>(178,407)</u>	
<b>Total Deferred Inflows of Resources Related to Pensions</b>		<b>(4,722,500)</b>

See accompanying note to supplementary information.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

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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.

\$ 1,827,907

Long-term obligations at year-end consist of:

General obligation and lease revenue bonds

\$ 131,463,522

Premium on bonds

2,299,410

Compensated absences

903,968

Early retirement plan

656,560

Aggregate net OPEB liability

6,924,263

Aggregate net pension liability

40,957,342

In addition, the District issued 'capital appreciation' general obligation bonds. The accretion of interest on those bonds to date is the following:

3,453,542

(186,658,607)

**Total Net Position**

**\$ 15,370,546**

See accompanying note to supplementary information.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### *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.

#### **Schedule of Expenditures of State Awards**

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

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

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

#### **Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation**

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

#### **Reconciliation of 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.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### 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.

### Reconciliation of Expenditures of Grant Activity With the District's Schedule of Expenditures of Federal Awards

The following is a list of the grants and the differences between the District's accounting records and the Schedule of Expenditures of Federal Awards:

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government:		\$ 10,383,392
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	(1,436)
Federal Pell Grant Program	84.063	(1,866)
Federal Direct Student Loans	84.268	<u>685</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,380,775</u>

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***INDEPENDENT AUDITOR'S REPORTS***

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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  
Monterey Peninsula Community College District  
Monterey, 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 Monterey Peninsula 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 December 17, 2018.

**Emphasis of Matter - Change in Accounting Principles**

As discussed in Note 2 and Note 15 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 December 17, 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.



Rancho Cucamonga, California  
December 17, 2018



**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  
Monterey Peninsula Community College District  
Monterey, California

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

We have audited Monterey Peninsula 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.

## Report on Internal Control Over Compliance

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

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

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

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.

Vavines, Tunc, Day & Co. LLP

Rancho Cucamonga, California  
December 17, 2018





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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007, 84.033, 84.063, 84.268</u>	<u>Student Financial Assistance Cluster</u>
<u>47.050, 47.076, 93.859</u>	<u>Research and Development 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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**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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None reported.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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None reported.

**MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT**

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

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None reported.

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

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

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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.

### *Financial Statement Findings*

None reported.

### *Federal Awards Findings*

None reported.

### *State Awards Findings*

None reported.