



**RIO HONDO
COMMUNITY COLLEGE
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

RIO HONDO COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2017

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rio Hondo Community College District
Whittier, 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 Rio Hondo Community College District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2016-2017 *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 opinion.

Opinion

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, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 and Note 15 to the financial statements, in 2017, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

Additionally, as discussed in Note 15 to the financial statements, the accompanying financial statements reflect certain changes as a result of a correction to the beginning asset and liability balances as of July 1, 2016. These changes required a restatement of the beginning net position of the District. Our opinion was not modified with respect to these matters.

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 the Other Required Supplementary Information listed in the table of contents to 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 other supplementary information as listed in the Table of Contents are presented for purposes of additional analysis and is 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 7, 2017, 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.

A handwritten signature in black ink that reads "Vainek Tume Day & Co. LLP". The signature is written in a cursive, slightly slanted style.

Rancho Cucamonga, California
December 7, 2017



TERESA DREYFUSS
SUPERINTENDENT/PRESIDENT

BOARD OF TRUSTEES

NORMA EDITH GARCÍA

GARY MENDEZ

MARY ANN PACHECO

VICKY SANTANA

MADLINE SHAPIRO

USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities programs and financial condition of Rio Hondo Community College District (the District) as of June 30, 2017. 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, 2017. 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

Rio Hondo 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 entity-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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

STATEMENT OF NET POSITION

The net position of the District consists of three major categories:

- Net investment in capital assets — the District's equity in property, plant, and equipment.
- Restricted net position — the constraints placed on the use of the assets are externally imposed by creditors such as grantors, contributors, or laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.
- Unrestricted net position — the District can use them for any lawful purpose. Although unrestricted, the District's governing board may place internal restriction on these net assets, but it retains the power to change, remove, or modify those restrictions.
- Current assets decreased approximately \$1.1 million. The majority of the decrease is within cash and investments of \$3.7 million and a corresponding increase in the accounts receivable of \$3.2 million primarily due unpaid State categorical programs balances at the end of the year. Other assets decreased by \$.649 million over the prior year due to payments received during the year.
- Net OPEB asset is the value of the funding for future retirees' benefits beyond the amount required by GASB Statement No. 45. During the year, the District made a contribution of \$10 million to the OPEB Trust fund to cover for the postemployment health care benefits. In the previous year, this account was a liability of approximately \$4 million.
- Net movement in capital assets by approximately \$.3 million is primarily due to increase in construction-in-progress of approximately \$6.4 million for the L-Tower Seismic Upgrade and the Pico Rivera Educational Center ongoing construction projects. Additional completed building projects increased by \$.876 million and equipment and furniture increased by \$.387 million during the year. Total additions during the year amounted to \$7.7 million compared to \$14.5 million in prior year. Depreciation expense increased to \$7.4 million this year compared to \$7.9 million in prior year. Please refer to Table 5 for additional information.
- Deferred outflows of resources increased by \$6.5 million from prior year. These represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, the District recognized deferred outflows and inflows of resources related to pensions in the District-wide financial statements.
- Accounts payables and accrued liabilities increased primarily due to increase in unearned revenue by approximately \$3.3 million primarily due deferral of special categorical programs such as Student Success and Support Program, Student Equity, Scheduled Maintenance, Strong Workforce, Guided Pathway, Prop 39, and fees collected for summer 2017.

RIO HONDO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

- Long-term obligations have increased primarily due to increase in net pension liability, which reflect the District's proportionate share of the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) net pension liabilities by \$10.8 million during the year primarily because of lower than projected investment earnings. During the year, payments of general obligation bonds amounted to \$5.1 million and additions to accreted interest for the general obligation bonds amounted to \$3.3 million. Bond premium amortization amounted to \$.3 million.
- Deferred inflows of resources decreased by approximately \$3.9 million from prior year. These represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, the District recognized deferred outflows and inflows of resources related to pensions in the District-wide financial statements.

RIO HONDO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Table 1

(Amounts in thousands)

	<u>2017</u>	<u>2016 as Restated</u>	<u>Change</u>
ASSETS			
Current Assets			
Cash and investments	\$ 138,160	\$ 141,900	\$ (3,740)
Accounts receivable	7,483	4,226	3,257
Other current assets	54	703	(649)
Total Current Assets	<u>145,697</u>	<u>146,829</u>	<u>(1,132)</u>
Net OPEB asset	6,437	-	6,437
Capital Assets (net)	208,361	208,053	308
Total Noncurrent Assets	<u>214,798</u>	<u>208,053</u>	<u>6,745</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	1,120	1,280	(160)
Deferred outflows of resources related to pensions	15,232	8,508	6,724
Total Deferred Outflows of Resources	<u>16,352</u>	<u>9,788</u>	<u>6,564</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	28,812	25,508	3,304
Current portion of long-term debt	5,600	5,905	(305)
Total Current Liabilities	<u>34,412</u>	<u>31,413</u>	<u>2,999</u>
Long-Term Obligations	<u>260,317</u>	<u>253,832</u>	<u>6,485</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>5,269</u>	<u>9,191</u>	<u>(3,922)</u>
NET POSITION			
Net investment in capital assets	78,520	80,745	(2,225)
Restricted	36,135	32,174	3,961
Unrestricted	(37,806)	(42,685)	4,879
Total Net Position	<u>\$ 76,849</u>	<u>\$ 70,234</u>	<u>\$ 6,615</u>

RIO HONDO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

- Changes in total net position are presented on the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the operating and nonoperating revenues earned whether received or not by the District, the operating and nonoperating expenses incurred whether paid or not by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations.
- Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Nonoperating revenues are those received or pledged for which goods and services are not provided; for example, State apportionments, while budgeted for operations, are considered nonoperating revenue according to generally accepted accounting principles because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.
- Net tuition and fees increase of \$1.1 million or approximately 21 percent due to more students paying their fees upfront compared with previous year. In addition, the District was able to collect past due tuition and fees through the Chancellor's Office Tax Offset Program (COTOP).
- Other operating revenues have increased from prior year due to more revenues received this year. These revenues consist of rental and leases incomes, retirees' contributions to health premiums, and other miscellaneous incomes.
- Salaries and benefits decreased by \$5.9 million due to the fact that last year the District recognized liabilities for the pension trust fund. This year, the District was not able to set aside funds due to increased costs of step and column, negotiated salary increases, rise in medical premiums, and an increase in class section offerings and higher pension contribution rates for STRS and PERS.
- Supplies and maintenance costs increased \$13.6 million is primarily due to additional spending in non-capitalized expenses, increased contracted services, instructional supplies for use in the classroom, supply, inventory purchases and maintenance by the Facilities Department, and non-instructional supplies for use in offices and support departments.
- Student financial aid in the form of Pell and SEOG grants, along with Federal Student Loans, decreased from prior year due to less student awards as a result decrease in enrollment.
- Depreciation has decreased by \$0.5 million due to increase in capital works-in-progress which is a nondepreciable asset.
- State apportionment increased by approximately \$.2 million primarily due to decrease in FTES due to low enrollment and decreased Proposition 30 Education Protection Account funding from prior year. The District's primary funding source is based on apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES).
- The increase of \$1.4 million, 9 percent, in local property tax reflects the growth trend of the local property tax base.

RIO HONDO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

- Grants and contracts have increased by \$.7 million due to new grants during the year.
- State revenue increased by \$.5 million primarily due to more allocations for lottery and mandated costs revenues.
- Investment income and net investment expense have increased due to improved return rates and larger cash balances with the County Treasurer.
- Other nonoperating revenues have increased due to the District's increased activity during the year and also recognition of prior year deferred revenues.
- State capital income increased due to higher amount of scheduled maintenance and the categorical reimbursements from the State for the L-Tower Seismic Code upgrades project.

Table 2

(Amounts in thousands)

	2017	2016	Change
Operating Revenues			
Tuition and fees	\$ 6,404	\$ 5,293	\$ 1,111
Other operating revenues	1,606	308	1,298
Total Operating Revenues	<u>8,010</u>	<u>5,601</u>	<u>2,409</u>
Operating Expenses			
Salaries and benefits	73,559	79,538	(5,979)
Supplies and maintenance	26,376	12,767	13,609
Student financial aid	21,530	22,725	(1,195)
Depreciation	7,397	7,917	(520)
Total Operating Expenses	<u>128,862</u>	<u>122,947</u>	<u>5,915</u>
Loss on Operations	<u>(120,852)</u>	<u>(117,346)</u>	<u>(3,506)</u>
Nonoperating Revenues			
State apportionments	59,657	59,385	272
Property taxes	16,463	14,982	1,481
Grants and contracts	42,282	41,491	791
State revenues	3,073	2,486	587
Investment income	1,363	1,034	329
Net investment expense	(6,755)	(10,609)	3,854
Other nonoperating revenues	7,852	4,098	3,754
Total Nonoperating Revenue	<u>123,935</u>	<u>112,867</u>	<u>11,068</u>
Other Revenues			
State capital income	<u>3,532</u>	<u>7,623</u>	<u>(4,091)</u>
Net Increase in Net Position	<u>\$ 6,615</u>	<u>\$ 3,144</u>	<u>\$ 3,471</u>

RIO HONDO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

STATEMENT OF FUNCTIONAL EXPENSES

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:

Table 3

Year ended June 30, 2017:

(Amounts in thousands)

	Salaries and Employee Benefits	Supplies, Material, and Other Expenses and Services	Financial Aid	Depreciation	Total
Instructional activities	\$ 41,228	\$ 4,386	\$ -	\$ -	\$ 45,614
Academic support	3,838	72	-	-	3,910
Student services	16,712	3,606	-	-	20,318
Operation and maintenance of plant	3,016	1,688	-	-	4,704
Institutional support services	7,337	9,548	-	-	16,885
Community services and economic development	181	124	-	-	305
Ancillary services and auxiliary operations	487	482	-	-	969
Childcare center	760	49	-	-	809
Physical property and related acquisitions	-	6,421	-	-	6,421
Student aid	-	-	21,530	-	21,530
Unallocated depreciation	-	-	-	7,397	7,397
Total	<u>\$ 73,559</u>	<u>\$ 26,376</u>	<u>\$ 21,530</u>	<u>\$ 7,397</u>	<u>\$ 128,862</u>

STATEMENT OF CASH FLOWS

Table 4

(Amounts in thousands)

	2017	2016	Change
Cash Provided by (Used in)			
Operating activities	\$ (123,211)	\$ (102,998)	\$ (20,213)
Noncapital financing activities	120,382	134,337	(13,955)
Capital financing activities	(2,027)	(21,205)	19,178
Investing activities	1,116	1,034	82
Net Increase (Decrease) in Cash	(3,740)	11,168	(14,908)
Cash, Beginning of Year	141,900	130,732	11,168
Cash, End of Year	<u>\$ 138,160</u>	<u>\$ 141,900</u>	<u>\$ (3,740)</u>

RIO HONDO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

CAPITAL ASSETS

Capital Assets

As of June 30, 2017, the District had \$277.7 million in capital assets, less \$69.3 million accumulated depreciation for net capital assets of \$208.4 million. The District continues to work on the facilities projects that are part of the \$254.0 million bond facility master plan. The District spent approximately \$7.7 million on capital assets during the year, the majority of which relate to bond project expenses. Depreciation expenses totaled \$7.4 million during the year. Additional information related to capital assets is found in Note 6 of the financial statements.

Table 5

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land and construction in progress	\$ 8,462	\$ 6,441	\$ -	\$ 14,903
Buildings and improvements	249,478	877	-	250,355
Equipment and vehicles	12,054	387	-	12,441
Subtotal	269,994	7,705	-	277,699
Accumulated depreciation	(61,941)	(7,397)	-	(69,338)
	<u>\$ 208,053</u>	<u>\$ 308</u>	<u>\$ -</u>	<u>\$ 208,361</u>

DEBT ADMINISTRATION

At June 30, 2017, the District had \$191.7 million in outstanding long-term obligations compared to \$193.9 million at June 30, 2016. The overall net decrease of \$2.2 million is due to accretion of interest of \$3.3 million, repayments of General Obligation Bonds of \$5.1 million and amortization of bond premium by \$0.3 million. Other Postemployment Benefits (OPEB) obligation decreased from a liability of \$2.3 million to an asset of \$6.4 million due to additional contributions of \$10 million during the year. Compensated absences increased by \$28,000 whereas the District's share of Net Pension Liability for CalSTRS and CalPERS increased by \$10.7 million. Additional information related to long-term obligations is found in Note 10 of the financial statements.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Table 6

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
General obligation bonds	\$ 193,879	\$ 3,315	\$ 5,503	\$ 191,691
Aggregate net pension obligation	62,708	10,796	-	73,504
Other liabilities	3,150	4,479	13,344	(5,715)
Total Long-Term Debt	<u>\$ 259,737</u>	<u>\$ 18,590</u>	<u>\$ 18,847</u>	<u>\$ 259,480</u>
Amount due within one year				<u>\$ 5,600</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget for fiscal year 2016-2017 was approved by the board on June 14, 2017.

ECONOMIC FACTORS AFFECTING THE FUTURE OF RIO HONDO COMMUNITY COLLEGE DISTRICT

The District's economic condition is directly affected by the economic well-being of the State of California. Through the California Community College Chancellor's Office, the District receives over 90 percent of its combined General Fund revenues from State apportionments, local property taxes including redevelopment agency allocations, and the Education Protection Account (EPA). These sources, along with student paid enrollment fees, make up the District's general apportionment, the main funding support for California community colleges.

There are concerns for community colleges in that the condition of the State's budget depends on many volatile and unpredictable economic factors. This uncertainty coupled with the expectation of Cost of Living Adjustments (COLAs) remaining low in the foreseeable future, growth of Full-Time Equivalent Students remaining tenuous and continuing cost increases related to pension obligations necessitates a cautious approach to budget forecasts.

Management will continue to provide information to the Board of Trustees and the community on the financial condition of the District. Management will closely monitor the State budget and other pertinent information to ensure financial stability and to retain reserve levels required by board policy and the State Chancellor's Office.

RIO HONDO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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, should be addressed to the Vice President, Finance and Business, Rio Hondo Community College District, 3600 Workman Mill Road, Whittier, California 90601.

RIO HONDO COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT JUNE 30, 2017

ASSETS

Current Assets

Cash	\$ 12,091,218
Investments - unrestricted	91,392,566
Investments - restricted	34,676,069
Accounts receivable	7,482,686
Prepaid expenses	33,777
Inventories	20,438

Total Current Assets

145,696,754

Noncurrent Assets

Net other postemployment benefit (OPEB) asset	6,437,416
Nondepreciable capital assets	14,903,195
Depreciable capital assets, net of depreciation	193,457,990

Total Noncurrent Assets

214,798,601

TOTAL ASSETS

360,495,355

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refunding	1,119,953
Deferred outflows of resources related to pensions	15,232,028

TOTAL DEFERRED OUTFLOW OF RESOURCES

16,351,981

LIABILITIES

Current Liabilities

Accounts payable	14,567,833
Interest payable	1,858,375
Due to fiduciary funds	16,000
Unearned revenue	12,370,404
Bonds payable - current portion	5,600,000

Total Current Liabilities

34,412,612

Noncurrent Liabilities

Compensated absences payable - noncurrent portion	721,338
Bonds payable - noncurrent portion	182,673,437
Unamortized bond premium	3,417,694
Aggregate net pension obligation	73,504,506

Total Noncurrent Liabilities

260,316,975

TOTAL LIABILITIES

294,729,587

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	5,268,618
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NET POSITION

Net investment in capital assets	78,519,760
Restricted for:	
Debt service	8,041,663
Capital projects	23,523,250
Educational programs	4,570,388
Unrestricted	(37,805,930)
TOTAL NET POSITION	<u>\$ 76,849,131</u>

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

RIO HONDO COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUES

Student Tuition and Fees	\$ 15,351,166
Less: Scholarship discount and allowance	(8,947,072)
Net tuition and fees	<u>6,404,094</u>
Other Operating Revenues	<u>1,605,998</u>
TOTAL OPERATING REVENUES	<u>8,010,092</u>

OPERATING EXPENSES

Salaries	55,027,940
Employee benefits	18,530,992
Supplies, materials, and other operating expenses and services	26,261,998
Student financial aid	21,529,928
Equipment, maintenance, and repairs	113,868
Depreciation	<u>7,397,267</u>
TOTAL OPERATING EXPENSES	<u>128,861,993</u>

OPERATING LOSS

(120,851,901)

NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	59,656,177
Local property taxes, levied for general purposes	6,655,057
Taxes levied for other specific purposes	9,807,529
Federal grants	19,864,536
State grants	22,417,341
State taxes and other revenues	3,073,138
Investment income	1,362,850
Interest expense on capital related debt	(6,821,909)
Investment income on capital asset-related debt, net	67,119
Other nonoperating revenue	<u>7,852,403</u>

TOTAL NONOPERATING REVENUES (EXPENSES)

123,934,241

INCOME BEFORE OTHER REVENUES

3,082,340

OTHER REVENUES

State revenues, capital	<u>3,532,410</u>
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CHANGE IN NET POSITION

6,614,750

NET POSITION, BEGINNING OF YEAR, AS RESTATED (See Note 15)

70,234,381

NET POSITION, END OF YEAR

\$ 76,849,131

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

RIO HONDO COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 6,343,019
Payments to vendors for supplies and services	(27,937,340)
Payments to or on behalf of employees	(81,692,590)
Payments to students for scholarships, grants and other aid	(21,529,928)
Other operating receipts	1,605,998
Net Cash Flows From Operating Activities	(123,210,841)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	62,825,765
Grant and contracts	41,925,646
Property taxes - non-debt related	6,655,057
State taxes and other apportionments	3,487,293
Other nonoperating	5,487,735
Net Cash Flows From Noncapital Financing Activities	120,381,496

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(6,149,219)
Deferred costs on issuance of refunding debt	159,994
State revenue, capital projects	3,532,410
Accreted interest on capital debt	3,315,315
Property taxes - related to capital debt	9,807,529
Principal paid on capital debt	(5,503,631)
Interest paid on capital debt	(7,256,140)
Interest received on capital asset-related debt	67,119
Net Cash Flows From Capital Financing Activities	(2,026,623)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	1,115,556
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NET CHANGE IN CASH AND CASH EQUIVALENTS

(3,740,412)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR, AS RESTATED

141,900,265

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 138,159,853

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

RIO HONDO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued FOR THE YEAR ENDED JUNE 30, 2017

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

Operating Loss	<u>\$ (120,851,901)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation expense	7,397,267
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows	
Inventories	3,787
Prepaid expenses	191,541
Accounts payable and accrued liabilities	(166,368)
Unearned revenue	(1,069,878)
Compensated absences	(28,806)
Deferred outflows of resources related to pensions	(6,723,569)
Deferred inflows of resources related to pensions	(3,922,390)
Net aggregate pension obligation	10,795,923
Net OPEB asset	(8,836,447)
Total Adjustments	<u>(2,358,940)</u>
Net Cash Flows From Operating Activities	<u><u>\$ (123,210,841)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 798,298
Cash with fiscal agent	11,292,920
Cash in county treasury	126,068,635
Total Cash and Cash Equivalents	<u><u>\$ 138,159,853</u></u>

NONCASH TRANSACTIONS

Board of governors fee waivers	\$ 8,947,072
On behalf payments for benefits	2,632,592
	<u><u>\$ 11,579,664</u></u>

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

RIO HONDO COMMUNITY COLLEGE DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	Retiree OPEB Trust	Associated Student Body Fund	Auxiliary Services Organization Fund
ASSETS			
Cash	\$ -	\$ 361,704	\$ 1,007,164
Investments	20,954,978	-	-
Accounts receivable	-	-	80,862
Due from primary government	-	16,000	-
Other current assets	-	500	-
Total Assets	<u>20,954,978</u>	<u>378,204</u>	<u>1,088,026</u>
LIABILITIES			
Accounts payable	-	10,445	19,919
Due to student groups	-	60,343	969,505
Total Liabilities	<u>-</u>	<u>70,788</u>	<u>989,424</u>
NET POSITION			
Restricted for postemployment benefits other than pensions	20,954,978	-	-
Unrestricted	-	307,416	98,602
Total Net Position	<u>\$ 20,954,978</u>	<u>\$ 307,416</u>	<u>\$ 98,602</u>

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

RIO HONDO COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

	Retiree OPEB Trust	Associated Student Body Fund	Auxiliary Services Organization Fund
ADDITIONS			
Interest and investment income	\$ 969,430	\$ -	\$ -
Local revenues	-	210,267	339,394
Total Additions	<u>969,430</u>	<u>210,267</u>	<u>339,394</u>
DEDUCTIONS			
Salaries and benefits	-	50,000	-
Books and supplies	-	1,038	-
Services and operating expenditures	96,324	121,401	333,021
Total Deductions	<u>96,324</u>	<u>172,439</u>	<u>333,021</u>
OTHER FINANCING SOURCES			
Other sources - District trust contribution	10,000,000	-	-
Change in Net Position	10,873,106	37,828	6,373
Net Position - Beginning, as restated (see Note 15)	10,081,872	269,588	92,229
Net Position - Ending	<u>\$ 20,954,978</u>	<u>\$ 307,416</u>	<u>\$ 98,602</u>

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

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - ORGANIZATION

Rio Hondo Community College District (the District) was established in 1960 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of Whittier, Pico Rivera, Santa Fe Springs, La Puente, and surrounding areas. The District operates under a locally elected five-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and three education centers located in El Monte, Pico Rivera, and Whittier. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

Financial Reporting Entity

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

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 entity-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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

The 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, and No. 39. 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 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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2017, are stated at fair value. Fair value is estimated based on quoted market prices at year end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by 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. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. Management has analyzed these accounts and believes all amounts are fully collectable.

Prepaid Expenses

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

Inventories

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

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Capital Assets and Depreciation

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

Depreciation of capital assets is computed and recorded utilizing the half-year convention. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 40 years; equipment and vehicles, 5 to 15 years; and technology, 5 years.

Accrued Liabilities and Long-Term Obligations

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

Debt Issuance Costs, Premiums, and Discounts

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

Deferred Charge on Refunding

Deferred charge on refunding is amortized using the straight-line method over the remaining life of the new debt.

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 and for pension 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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The 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 entity-wide financial statements.

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

Unearned Revenue

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

Noncurrent Liabilities

Noncurrent liabilities include bonds payable, compensated absences, and the aggregate net pension obligation with maturities greater than one year.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Net Position

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$36,135,301 of restricted net position.

State Apportionments

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

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 Los Angeles 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 2004 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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Scholarships, Discounts, and Allowances

Student tuition and fee revenue is reported net of scholarships, discounts, and allowances. Fee waivers approved by the Board of Governors are included within the scholarships, discounts, and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. 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 GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, No. 43, and No. 50, *Pension Disclosures*.

The District has implemented the provisions of this Statement as of June 30, 2017.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

As a result of implementing GASB Statement No. 74, the District has restated the beginning net position of the Fiduciary Funds Statement of Net Position, effectively increasing the District's Fiduciary Net Position as of July 1, 2016, by \$10,081,872. The increase results from accounting for the District's OPEB Trust account within the District's Fiduciary accounts.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The District has implemented the provisions of this Statement as of June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of GASB Statement No. 68 applied to the financial statements of all State and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of State or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a State or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of State or local governmental employers and to employees of employers that are not State or local governmental employers; and (3) has no predominant State or local governmental employer (either individually or collectively with other State or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The District has implemented the provisions of this Statement as of June 30, 2017.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment to GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment to GASB Statement No. 14*.

The District has implemented the provisions of this Statement as of June 30, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. 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 GASB 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. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The requirements of this Statement are effective for financial statements for periods beginning after June 30, 2017. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

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.

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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017. 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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

General Authorizations

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

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

Authorized Under Debt Agreements

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 of the Primary Government as of June 30, 2017, consist of the following:

Primary government	\$ 138,159,853
Fiduciary funds	22,323,846
Total Deposits and Investments	\$ 160,483,699

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Deposits and investments of the Fiduciary Funds as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 2,162,166
Cash in revolving funds	5,000
Cash with fiscal agent	11,292,920
Investments	<u>147,023,613</u>
Total Deposits and Investments	<u><u>\$ 160,483,699</u></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 investing in the Los Angeles County Investment Pool and Mutual Funds.

Specific Identification

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

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
Los Angeles County Investment Pool	\$ 126,068,635	\$ 125,318,173	672
Mutual Funds	20,954,978	20,954,978	N/A
Total	<u><u>\$ 147,023,613</u></u>	<u><u>\$ 146,273,151</u></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 investment in the Los Angeles County Investment Pool and Mutual Funds are not required to be rated, nor have they been rated, as of June 30, 2017.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the District's bank balance of \$2,721,537 was exposed to custodial credit risk because it was uninsured and 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 Los Angeles 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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The District's fair value measurements are as follows at June 30, 2017:

Investment Type	Fair Value	Level 1 Inputs	Uncategorized
Los Angeles County Investment Pool	\$ 125,318,173	\$ -	\$ 125,318,173
Mutual Funds	20,954,978	20,954,978	-
Total	<u>\$ 146,273,151</u>	<u>\$ 20,954,978</u>	<u>\$ 125,318,173</u>

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

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

Federal Government	Primary Government
Categorical aid	\$ 1,026,670
State Government	
Apportionment	611,384
Categorical aid	1,555,316
Lottery	545,573
Local Sources	
Interest	575,870
Other local sources	3,167,873
Total	<u>\$ 7,482,686</u>
Other local sources	Fiduciary Funds
	<u>\$ 80,862</u>

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2017, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 7,710,208	\$ -	\$ -	\$ 7,710,208
Construction in progress	751,675	6,441,312	-	7,192,987
Total Capital Assets Not Being Depreciated	<u>8,461,883</u>	<u>6,441,312</u>	<u>-</u>	<u>14,903,195</u>
Capital Assets Being Depreciated				
Buildings and improvements	249,478,438	876,936	-	250,355,374
Equipment and furniture	10,311,850	387,122	-	10,698,972
Capitalized equipment	1,742,033	-	-	1,742,033
Total Capital Assets Being Depreciated	<u>261,532,321</u>	<u>1,264,058</u>	<u>-</u>	<u>262,796,379</u>
Total Capital Assets	<u>269,994,204</u>	<u>7,705,370</u>	<u>-</u>	<u>277,699,574</u>
Less Accumulated Depreciation				
Buildings and improvements	52,366,425	6,988,871	-	59,355,296
Equipment and furniture	7,832,664	408,396	-	8,241,060
Capitalized equipment	1,742,033	-	-	1,742,033
Total Accumulated Depreciation	<u>61,941,122</u>	<u>7,397,267</u>	<u>-</u>	<u>69,338,389</u>
Net Capital Assets	<u>\$ 208,053,082</u>	<u>\$ 308,103</u>	<u>\$ -</u>	<u>\$ 208,361,185</u>

Depreciation expense for the year was \$7,397,267.

Interest expense on capital related debt for the year ended June 30, 2017, was \$7,155,536. Of this amount, \$333,627 was capitalized.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	Primary Government
Accrued payroll and benefits	\$ 4,960,801
Construction	2,013,910
JPA payments	3,000,000
Other vendor payables	4,593,122
Total	<u>\$ 14,567,833</u>
	Fiduciary Funds
Other	<u>\$ 30,364</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue consisted of the following:

	Primary Government
Federal financial assistance	\$ 51,350
State apportionment	3,780,972
State categorical aid	4,314,110
Other state	3,642,635
Student fees	437,549
Other local	143,788
Total	<u>\$ 12,370,404</u>

NOTE 9 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2017, the primary government owed the fiduciary funds \$16,000.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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 2017 fiscal year, no funds were transferred between the primary government and the fiduciary funds.

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2017 fiscal year consisted of the following:

	Balance Beginning of Year as Restated	Additions	Deductions	Balance End of Year	Due in One Year
General obligation bonds					
2005 Series A, General obligation refunding bonds	\$ 38,880,000	\$ -	\$ 3,525,000	\$ 35,355,000	\$ 3,705,000
2009 Series B, General obligation bonds	63,281,867	267,818	1,630,000	61,919,685	1,895,000
2010 Series C, General obligation bonds	87,951,255	3,047,497	-	90,998,752	-
Unamortized bond premium	3,766,325	-	348,631	3,417,694	-
Total Bonds Payable	<u>193,879,447</u>	<u>3,315,315</u>	<u>5,503,631</u>	<u>191,691,131</u>	<u>5,600,000</u>
Other Liabilities (Assets)					
Compensated absences	750,144	-	28,806	721,338	-
Other postemployment benefits (OPEB)	2,399,031	4,479,469	13,315,916	(6,437,416)	-
Aggregate net pension obligation	62,708,583	10,795,923	-	73,504,506	-
Total Other Liabilities	<u>65,857,758</u>	<u>15,275,392</u>	<u>13,344,722</u>	<u>67,788,428</u>	<u>-</u>
 Total Long-Term Obligations	 <u>\$ 259,737,205</u>	 <u>\$ 18,590,707</u>	 <u>\$ 18,848,353</u>	 <u>\$ 259,479,559</u>	 <u>\$ 5,600,000</u>

Description of Debt

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. The accrued compensated absences and the aggregate net pension obligation will be paid by the fund for which the employee worked. The OPEB obligation will be paid by the General Fund.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Bonded Debt

On September 26, 2005, the District adopted a resolution to issue general obligation refunding bonds (the Refunding Bonds) to finance the advance refunding of a portion of the District's outstanding Series A Bonds starting August 1, 2015. On November 3, 2005, Refunding Bonds in the amount of \$47,117,244 were issued which consisted of current interest bonds of \$43,750,000 and capital appreciation bonds of \$3,367,244. The Refunding Bonds, rated "AAA" by Standard & Poor's at the time of issuance, will mature on August 1, 2024. The total proceeds from the bond issuance amounted to \$51,103,479.

Concurrent with the issuance of the Refunding Bonds, the District deposited part of the proceeds in the amount of \$46,371,376 from the Refunding Bonds in trust into an escrow agent securing the respective maturities of the Series A General Obligation Bonds. The remaining portion in the amount of \$4,732,103 was deposited to the revenue bond construction fund. The advanced refunding met the requirements of an in-substance defeasance. Accordingly, the refunded portion of the Series A General Obligation Bonds was removed from the District's financial statements. The defeasance of the Series A General Obligation Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt.

On March 11, 2009, the District issued \$64,996,844 of Series B General Obligation Bonds to fund the acquisition, construction, furnishing, equipping, and improvement of capital facilities within the District. The Series B General Obligation Bonds, which were rated "AA" by Standard & Poor's at the time of issuance, consist of \$60,190,000 current interest bonds and \$4,806,844 capital appreciation bonds. Interest on the current interest bonds is payable semi-annually on February 1 and August 1. Current interest bonds bear interest at rates ranging from 3.0 percent to 5.0 percent, and the bonds mature on August 1, 2030. Capital appreciation bonds bear compounded interest at rates ranging from 6.60 percent to 6.69 percent and will mature in August 2033. The total proceeds from the bond issuance amounted to \$66,545,864.

On December 21, 2010, the District issued \$60,040,980 of Measure A, Series C General Obligation Bonds to finance the furnishing, equipping, acquisition, construction, and improvement of District capital facilities authorized at the 2004 election. The Series C bonds consist of \$18,806,028 capital appreciation bonds and \$41,234,952 convertible capital appreciation bonds. Capital appreciation bonds accrete interest from the date of delivery, compounded semi-annually on February 1 and August 1 of each year and will be payable solely at maturity, with accretion rates ranging from 6.99 percent to 12.00 percent. The bonds mature on August 1, 2038. The convertible capital appreciation bonds were initially issued as capital appreciation bonds and will convert to current interest bonds on August 1, 2024, the conversion date. Prior to the conversion date, these bonds will not pay interest, but will accrete in value from their initial principal amounts on the delivery date to the conversion date. Capital accretion rates range from 6.625 percent to 6.850 percent. Prior to the conversion date, interest will be compounded on each February 1 and August 1, commencing on February 1, 2011. No payment of interest will be made prior to or on the conversion date. Following conversion, the bonds will pay current interest based on the conversion value. Such interest will be payable semi-annually on each February 1 and August 1, commencing on February 1, 2025, ranging from 6.625 percent to 6.850 percent. The bonds mature on August 1, 2042.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Accreted Interest		Bonds	
				Outstanding July 1, 2016	Issued	Addition	Redeemed	Outstanding June 30, 2017	
11/3/2005	8/1/2024	3.00-5.00%	\$ 47,117,244	\$ 38,880,000	\$ -	\$ -	\$ 3,525,000	\$ 35,355,000	
3/11/2009	8/1/2033	3.00-6.69%	64,996,844	63,281,867	-	267,818	1,630,000	61,919,685	
12/21/2010	8/1/2042	6.62-6.99%	60,040,980	87,951,255	-	3,047,497	-	90,998,752	
				<u>\$ 190,113,122</u>	<u>\$ -</u>	<u>\$ 3,315,315</u>	<u>\$ 5,155,000</u>	<u>\$ 188,273,437</u>	

The 2005 Series A General Obligation Bonds mature through 2025 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2018	\$ 3,705,000	\$ 1,649,713	\$ 5,354,713
2019	3,890,000	1,459,838	5,349,838
2020	4,085,000	1,260,462	5,345,462
2021	4,285,000	1,051,212	5,336,212
2022	4,500,000	831,587	5,331,587
2023-2025	14,890,000	1,089,381	15,979,381
Total	<u>\$ 35,355,000</u>	<u>\$ 7,342,193</u>	<u>\$ 42,697,193</u>

The 2009 Series B General Obligation Bonds mature through 2034 as follows:

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2018	\$ 1,895,000	\$ -	\$ 2,670,387	\$ 4,565,387
2019	2,090,000	-	2,570,762	4,660,762
2020	2,290,000	-	2,472,712	4,762,712
2021	2,585,000	-	2,362,287	4,947,287
2022	2,815,000	-	2,227,287	5,042,287
2023-2027	19,055,000	-	8,573,819	27,628,819
2028-2032	25,780,110	4,309,890	2,518,525	32,608,525
2033-2034	5,409,575	9,570,425	-	14,980,000
Total	<u>\$ 61,919,685</u>	<u>\$ 13,880,315</u>	<u>\$ 23,395,779</u>	<u>\$ 99,195,779</u>

RIO HONDO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

The 2010 Series C General Obligation Bonds mature through 2043 as follows:

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2023-2027	\$ 171,915	\$ 348,085	\$ 17,382,100	\$ 17,902,100
2028-2032	3,919,376	8,140,624	34,764,200	46,824,200
2033-2037	16,374,614	39,730,386	34,764,200	90,869,200
2038-2042	8,507,107	27,437,893	27,446,537	63,391,537
2043	62,025,740	40,329,260	961,638	103,316,638
Total	\$ 90,998,752	\$ 115,986,248	\$ 115,318,675	\$ 322,303,675

Compensated Absences

At June 30, 2017, the liability for compensated absences was \$721,338.

Aggregate Net Pension Obligation

At June 30, 2017, the liability for the aggregate net pension obligation amounted to \$73,504,506. See Note 13 for additional information.

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) ASSET

Plan Description

Plan administration. The District's Governing Board, which consists of five locally-elected members, administers the Postemployment Benefits Plan (the Plan), a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for the District.

Management of the Plan is vested with the Rio Hondo Community College Retirement Board of Authority, which consists of Plan members within the District.

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

Inactive Plan members or beneficiaries currently receiving benefit payments	298
Active Plan members	446
	744

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 Governing Board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Contributions. The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (RHCFA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-2017, the District contributed \$12,442,810 to the Plan, of which \$10,000,000 was deposited in the District's irrevocable OPEB Trust and \$2,442,810 was used for current premiums. Plan members are not required to contribute to the Plan, however, classified management members hired after May 10, 2005, may elect to make contributions to the Plan as active employees to obtain lifetime coverage comparable to that available to employees hired prior to May 11, 2005.

Retiree Health Benefit OPEB Trust

The Retiree Health Benefit OPEB Trust (the Trust) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by the Rio Hondo Community College District Board of 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.

Investments

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 Board to pursue an investment strategy that reduces risk through the prudent diversification of 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 allocations over short time spans. The following was the Governing Board's adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	23%
Fixed income	50%
International equity	20%
Real estate	7%
Total	<u>100%</u>

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 10.06 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Net OPEB Liability of the District

The component of the net OPEB liability of the District as of June 30, 2017, was as follows:

Total actuarially accrued OPEB liability	\$ 57,593,638
Plan fiduciary net position	<u>20,954,978</u>
District's net OPEB liability	<u>36,638,660</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>36.38%</u>

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of May 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	4.65 percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	4.0 percent

Mortality rates were based on the 2009 CalSTRS Mortality Tables for Certificated employees and the 2009 CalPERS Mortality Tables for Active Miscellaneous Employees for Classified employees.

The actuarial assumptions used in the May 1, 2015, valuation were based on the results of an actuarial experience study for the period of May 1, 2014 - April 30, 2015.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	9.1%
Fixed income	4.8%
International equity	8.7%
Real estate	7.5%
Cash	1.0%

Discount rate. The discount rate used to measure the total OPEB liability was 4.65 percent. The projection of cash flows used to determine the discount rate assumed that 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 future benefit payments of current Plan members. 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.

Sensitivity of the net OPEB liability to changes in the discount and health care cost rates. The OPEB liability is based on the actuarial report that relies on estimates and assumptions that affect the amounts reported. Particularly, changes in the discount and health care cost trend rates used can have a significant impact on the resulting actuarially determined OPEB liability. Actual results may differ from these estimates and assumptions.

NOTE 12 - RISK MANAGEMENT

The District participates in three joint powers authority (JPA) entities: the Southern California Community College Districts (SCCCD), the Alliance of Schools for Cooperative Insurance Programs (ASCIP), and the West San Gabriel Valley Benefits (WSGVB). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

SCCCD arranges for and provides a self-funded or additional insurance for excess liability fund for approximately 1,100 public educational agencies. SCCCDD is governed by a board of 16 elected voting members, elected alternates, and two ex-officio members. The board controls the operations of SCCCDD, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SCCCDD's board of directors and shares surpluses and deficits proportionately to its participation in SCCCDD.

ASCIP arranges for and provides property, liability, and excess workers' compensation insurance for its member school districts. The District pays a premium commensurate with the level of coverage requested.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

WSGVB functions under a banking system, where each member district operates separately from other member districts. Each individual member district makes their premium deposit based primarily upon their scheduled insurance coverage. Coverage is supplied for dental and vision care for all participating member districts.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2017, 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	\$ 48,849,511	\$ 8,075,269	\$ 4,108,907	\$ 3,693,000
CalPERS	24,654,995	7,156,759	1,159,711	2,919,417
Total	<u>\$ 73,504,506</u>	<u>\$ 15,232,028</u>	<u>\$ 5,268,618</u>	<u>\$ 6,612,417</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required State contribution rate	8.828%	8.828%

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, 2017, are presented above, and the District's total contributions were \$4,191,757.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

At June 30, 2017, 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	\$ 48,849,511
State's proportionate share of net pension liability associated with the District	27,809,155
Total	<u>\$ 76,658,666</u>

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, was 0.0604 percent and 0.0650 percent, respectively, resulting in a net decrease in the proportionate share of 0.0046 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$3,693,000. In addition, the District recognized pension expense and revenue of \$2,688,048 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,191,757	\$ -
Net change in proportionate share of net pension liability	-	2,917,278
Differences between projected and actual earnings on the pension plan investments	3,883,512	-
Differences between expected and actual experience in the measurement of the total pension liability	-	1,191,629
Total	<u>\$ 8,075,269</u>	<u>\$ 4,108,907</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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 84,726
2019	84,726
2020	2,257,499
2021	1,456,561
Total	<u>\$ 3,883,512</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability 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
2018	\$ (703,692)
2019	(703,692)
2020	(703,692)
2021	(703,692)
2022	(703,692)
Thereafter	(590,447)
Total	<u>\$ (4,108,907)</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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on the Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	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 7.60 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 (7.60 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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 (6.60%)	\$ 70,305,464
Current discount rate (7.60%)	48,849,511
1% increase (8.60%)	31,029,444

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, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically 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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The CalPERS provisions and benefits in effect at June 30, 2017, 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%	6.00%
Required employer contribution rate	13.888%	13.888%

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, 2017, are presented above, and the total District contributions were \$2,270,696.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$24,654,995. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, was 0.1248 percent and 0.1277 percent, respectively, resulting in a net decrease in the proportionate share of 0.0029 percent.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

For the year ended June 30, 2017, the District recognized pension expense of \$2,919,417. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,270,696	\$ -
Net change in proportionate share of net pension liability	-	418,975
Differences between projected and actual earnings on the pension plan investments	3,825,662	-
Differences between expected and actual experience in the measurement of the total pension liability	1,060,401	-
Changes of assumptions	-	740,736
Total	<u>\$ 7,156,759</u>	<u>\$ 1,159,711</u>

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

The deferred outflows 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 of Resources
2018	\$ 536,599
2019	536,600
2020	1,753,998
2021	998,465
Total	<u>\$ 3,825,662</u>

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ (43,634)
2019	(40,911)
2020	(14,765)
Total	<u>\$ (99,310)</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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and services

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 36,785,390
Current discount rate (7.65%)	24,654,995
1% increase (8.65%)	14,554,054

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, which amounted to \$2,632,592 (8.578 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, 2017. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

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, 2017.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2018	\$ 169,815
2019	139,056
2020	120,153
2021	39,462
2022	19,745
Total	<u>\$ 488,231</u>

Rental expenditures for the year ended June 30, 2017, amounted to \$130,357.

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Spent to Date	Remaining Construction Commitment	Expected Date of Completion
L-Tower Seismic and Code Upgrades	\$ 1,377,354	\$ 27,539,380	3/31/2019
Pico Rivera Educational Center	1,131,393	390,320	1/31/2018
HVAC - Data Center Upgrade	551,125	162,556	1/15/2018
	<u>\$ 3,059,872</u>	<u>\$ 28,092,256</u>	

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

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The beginning net position for the primary government was restated for the correction of errors. The cash with fiscal agent, accounts payable, general obligation bond liability, and general obligation bond premium were not fairly stated. In addition, the net position of the fiduciary funds was included in the primary government net position. The restatement resulted in an increase to the beginning net position of \$33,692,699.

<u>Primary Government</u>	
Net Position - Beginning	\$ 36,541,682
Restatement for understatement of cash with fiscal agent	17,442,817
Restatement for overstatement of accounts payable	22,705,618
Restatement for understatement of the general obligation bond liability	(5,155,000)
Restatement for understatement of the general obligation bond premium	(938,924)
Restatement for removal of fiduciary funds from the beginning net position balance	(361,812)
Net Position - Beginning, as Restated	<u>\$ 70,234,381</u>

The District adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in the current year. The implementation of this standard requires a change in accounting principle and restatement of the beginning net position of the fiduciary funds by \$10,081,872.

<u>Fiduciary Funds</u>	
Fiduciary Net Position - Beginning	\$ 361,817
Restatement for implementation of GASB Statement No. 74	10,081,872
Fiduciary Net Position - Beginning, as Restated	<u>\$ 10,443,689</u>

REQUIRED SUPPLEMENTARY INFORMATION

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB (ASSET)/LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>
Total Net OPEB (Asset)/Liability*	
Annual required contribution	\$ 4,470,396
Interest on net OPEB obligation	111,555
Adjustment to annual required contribution	(102,482)
Contributions made for retiree health premiums	(2,442,810)
Contributions made to Irrevocable Trust	(10,000,000)
Change in value of Irrevocable Trust	<u>(873,106)</u>
Net changes in total OPEB Liability	<u>(8,836,447)</u>
Total Net OPEB Liability - beginning	<u>2,399,031</u>
Total Net OPEB Asset - ending	<u><u>\$ (6,437,416)</u></u>
Plan Fiduciary Net Position**	
Contributions - employer	\$ 10,000,000
Net investment income	969,430
Administrative expense	<u>(96,324)</u>
Net Change in Plan Fiduciary Net Position	<u>10,873,106</u>
Plan Fiduciary Net Position - Beginning	<u>10,081,872</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 20,954,978</u></u>

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

* The Total Net OPEB Asset was measured in accordance with GASB Statement No. 45.

**The Plan Fiduciary Net Position was measured in accordance with GASB Statement No. 74.

See accompanying note to required supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR OPEB FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>
Actuarially determined contribution	\$ 4,470,396
Contributions in relations to the actuarially determined contribution	<u>12,442,810</u>
Contribution deficiency (excess)	\$ (7,972,414)
Covered-employee payroll	\$ 64,173,627
Contribution as a percentage of covered-employee payroll	19.39%

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

See accompanying note to required supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OPEB INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	10.06%

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

See accompanying note to required supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
October 1, 2010	\$ -	\$ 63,336,909	\$ 63,336,909	0%	\$ 71,904,496	88%
December 1, 2012	-	57,364,482	57,364,482	0%	62,307,635	92%
May 1, 2015	10,354,619	57,593,638	47,239,019	18%	64,173,627	74%

See accompanying note to required supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.0604%</u>	<u>0.0650%</u>	<u>0.0646%</u>
District's proportionate share of the net pension liability	\$ 48,849,511	\$ 43,760,600	\$ 37,984,050
State's proportionate share of the net pension liability associated with the District	<u>27,809,155</u>	<u>23,128,021</u>	<u>22,812,498</u>
Total	<u>\$ 76,658,666</u>	<u>\$ 66,888,621</u>	<u>\$ 60,796,548</u>
District's covered-employee payroll	<u>\$ 24,950,084</u>	<u>\$ 30,728,908</u>	<u>\$ 28,794,776</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>195.79%</u>	<u>142.41%</u>	<u>131.91%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.1248%</u>	<u>0.1277%</u>	<u>0.1288%</u>
District's proportionate share of the net pension liability	<u>\$ 24,654,995</u>	<u>\$ 18,947,983</u>	<u>\$ 14,621,936</u>
District's covered-employee payroll	<u>\$ 14,046,189</u>	<u>\$ 14,501,020</u>	<u>\$ 13,516,527</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>175.53%</u>	<u>130.67%</u>	<u>108.18%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 4,191,757	\$ 2,677,144	\$ 2,728,727
Contributions in relation to the contractually required contribution	<u>4,191,757</u>	<u>2,677,144</u>	<u>2,728,727</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 33,320,803</u>	<u>\$ 24,950,084</u>	<u>\$ 30,728,908</u>
Contributions as a percentage of covered-employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 2,270,696	\$ 1,664,052	\$ 1,706,770
Contributions in relation to the contractually required contribution	<u>2,270,696</u>	<u>1,664,052</u>	<u>1,706,770</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 16,350,058</u>	<u>\$ 14,046,189</u>	<u>\$ 14,501,020</u>
Contributions as a percentage of covered-employee payroll	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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

See accompanying note to required supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Changes in the District's Net OPEB (Asset)/Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB (asset)/liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB (asset)/liability. In the future, as data becomes available, ten years of information will be presented. There were no changes in benefit terms or assumptions in the current year.

Schedule of District Contributions for OPEB

This schedule presents information on the District's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

Valuation Date: Actuarially determined contribution rates are calculated as of May 1, 2015, for entries for the fiscal year ending June 30, 2015, which is at least two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent, closed for initial UAAL Level percent, open for any residual UAAL
Amortization period	Initial UAAL – 30 years Residual UAAL – 25 years
Asset valuation method	Market-related value
Inflation	2.75 percent
Health care cost trend rates	4.0 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	4.65 percent, net of OPEB plan investment expense, including inflation
Retirement age	Certificated – 2009 CalSTRS Retirement Rates Classified (Hired before 1/1/13) – 2009 CalPERS Retirement Rates for School Employees Classified (Hired after 12/31/2012) – 2009 CalPERS Retirement Rates for Miscellaneous Employees
Mortality	Certificated – 2009 CalSTRS Mortality Classified – 2009 CalPERS Mortality for Active Miscellaneous Employees

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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 Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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 in Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions for Pensions

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

SUPPLEMENTARY INFORMATION

RIO HONDO COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2017

Rio Hondo Community College District was established by election in October 1960 and is comprised of an area of approximately 65.6 square miles, which includes the cities of Whittier, Pico Rivera, Santa Fe Springs, and South El Monte, as well as portions of El Monte, Norwalk, La Mirada, La Puente, Industry, and unincorporated areas of Los Angeles County. There were no changes in the boundaries of the District during the current 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.

As of June 30, 2017, the Board of Trustees and District Executive Officers are composed of the following members:

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Norma Edith Garcia	President	December 2018
Madeline Shapiro	Vice President	December 2018
Vicky Santana	Clerk	December 2020
Mary Ann Pacheco	Member	December 2018
Gary Mendez	Member	December 2020
Pariss Youngblood	Student Trustee	June 2018

DISTRICT EXECUTIVE OFFICERS

Teresa Dreyfuss	Superintendent/President
Yulian Ligioso*	Vice President, Finance and Business
Dr. Joanna Schilling	Interim Vice President, Academic Affairs
Henry Gee	Vice President, Student Services

* Effective July 2017

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		\$ 16,624,478
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		417,065
Federal Work-Study Program	84.033		292,796
Federal Direct Student Loans	84.268		453,425
Postsecondary Educational Scholarship for Veteran's Dependents	84.408		64,988
Total Student Financial Assistance Cluster			<u>17,852,752</u>
TRIO Cluster			
Upward Bound	84.047		15,874
Student Support Services	84.042		242,835
SSS STEM Program	84.042A		211,744
Total TRIO Cluster			<u>470,453</u>
The "Avance" Project (TAP)	84.031S		525,260
Hispanic Serving Institutions	84.031S		309
Passed through from California Community Colleges			
Chancellor's Office (CCCCO)			
CTE - CTE Transitions	84.048A	16-C01-053	43,748
Title I, Part C	84.048A	16-C01-053	476,949
Total U.S. Department of Education			<u>19,369,471</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through from California Community Colleges			
Chancellor's Office (CCCCO)			
Temporary Assistance to Needy Families (TANF)	93.558	[1]	87,357
Foster and Kinship Care Education	93.658	[1]	105,264
Total U.S. Department of Health and Human Services			<u>192,621</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through from California Department of Education (CDE)			
Child and Adult Care Food Program	10.558	CSPP-6522	45,321
Total U.S. Department of Agriculture			<u>45,321</u>
Research and Development Cluster			
National Science Foundation			
Alternative Energy	47.076		73,950
Scholarships to Aid Rio Hondo STEM Students (STARSS)	47.076		133,233
Total Research and Development Cluster			<u>207,183</u>
Total Federal Program Expenditures			<u><u>\$ 19,814,596</u></u>

[1] Pass-Through Entity Identifying Number is Unavailable.

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Program	Program Revenues			
	Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue
STATE CATEGORICAL AID PROGRAMS				
Disabled Student Program and Services	\$ 908,173	\$ -	\$ -	\$ 908,173
Access to Print and Electronic Information	11,284	-	-	11,284
Deaf and Hard of Hearing	32,847	-	-	32,847
Extended Opportunity Program and Services	1,601,300	-	-	1,601,300
Care Program	188,396	-	-	188,396
Cal Grant	1,773,510	-	-	1,773,510
CalWorks	426,184	-	22,200	403,984
Child Development Center	12,263	-	-	12,263
Student Success (Credit)	5,006,427	-	795,180	4,211,247
Student Success (Noncredit)	310,246	-	82,546	227,700
Student Equity	2,508,963	-	355,977	2,152,986
Nursing Education	192,705	16,880	-	209,585
Apprenticeship	1,364,617	-	-	1,364,617
Part-Time Faculty	266,112	-	-	266,112
Part-Time Faculty Health Benefits	1,263	-	-	1,263
Physical Plant and Instructional Support	2,137,470	-	-	2,137,470
Prop 39	-	457,923	387,050	70,873
Mandated Block grant	350,786	-	-	350,786
Adult Education (AEBG Data and Accountability)	424,910	-	22,275	402,635
Adult Education Block Grant Program	966,170	-	292,119	674,051
Basic Skills	156,254	-	-	156,254
MESA Grant	50,500	-	-	50,500
Foster Care (FKCE)	85,212	-	-	85,212
Deputy Sector Navigator - Health	170,193	230,936	-	401,129
Deputy Sector Navigator - Energy	322,453	-	-	322,453
RN Capitation #2	17,440	-	10,300	7,140
Basic Skills Partnership - Pilot Program	799,442	-	478,377	321,065
Basic Skills and Student Outcome Transformation	586,317	-	273,041	313,276
Career Technical Education - Teacher Prep Pipeline	58,715	37,410	-	96,125
Career Technical Education - Pathway Program	-	812,167	-	812,167
Baccalaureate Pilot Degree Program	362,974	-	289,555	73,419
Data Unlocked	50,000	-	50,000	-
Full-Time Student Success Grant	700,000	-	133,500	566,500
S.F.A.A.	523,764	-	-	523,764
Strong Workforce	1,220,672	-	1,121,990	98,682
Subtotal	<u>\$ 23,587,562</u>	<u>\$ 1,555,316</u>	<u>\$ 4,314,110</u>	<u>\$ 20,828,768</u>

See accompanying note to supplementary information.

Program
Expenditures

\$ 908,319
11,284
32,847
1,601,308
188,396
1,729,403
403,907
12,263
4,211,189
227,700
2,105,220
92,991
1,364,617
266,112
1,263
1,132,297
70,873
21,108
159,929
521,847
169,961
50,467
35,815
401,129
322,511
9,865
321,065
92,991
99,970
718,326
73,419
-
392,100
523,764
98,682
\$ 18,372,938

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT
 FOR THE YEAR ENDED JUNE 30, 2017**

CATEGORIES	<u>*Revised Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession (Summer 2016 only)			
1. Noncredit**	39.06	-	39.06
2. Credit	295.68	-	295.68
B. Summer Intersession (Summer 2017 - Prior to July 1, 2017)			
1. Noncredit**	-	-	-
2. Credit	-	-	-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	7,873.22	-	7,873.22
(b) Daily Census Contact Hours	762.76	-	762.76
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	457.68	-	457.68
(b) Credit	918.68	-	918.68
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	858.83	-	858.83
(b) Daily Census Contact Hours	449.49	(35.94)	413.55
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>11,655.40</u>	<u>(35.94)</u>	<u>11,619.46</u>
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	334.66	-	334.66
H. Basic Skills Courses and Immigrant Education			
1. Noncredit**	161.78	-	161.78
2. Credit	785.13	-	785.13
<u>CCFS-320 Addendum</u>			
CDCP Noncredit FTES	34.29	-	34.29

* Annual report revised as of November 3, 2017.

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

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2017**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 12,549,302	\$ -	\$ 12,549,302	\$ 12,569,937	\$ -	\$ 12,569,937
Other	1300	12,578,403	-	12,578,403	13,015,948	-	13,015,948
Total Instructional Salaries		25,127,705	-	25,127,705	25,585,885	-	25,585,885
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	6,058,035	-	6,058,035
Other	1400	-	-	-	466,253	-	466,253
Total Noninstructional Salaries		-	-	-	6,524,288	-	6,524,288
Total Academic Salaries		25,127,705	-	25,127,705	32,110,173	-	32,110,173
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	10,620,162	-	10,620,162
Other	2300	-	-	-	518,656	-	518,656
Total Noninstructional Salaries		-	-	-	11,138,818	-	11,138,818
Instructional Aides							
Regular Status	2200	1,580,212	-	1,580,212	1,622,955	-	1,622,955
Other	2400	556,804	-	556,804	557,328	-	557,328
Total Instructional Aides		2,137,016	-	2,137,016	2,180,283	-	2,180,283
Total Classified Salaries		2,137,016	-	2,137,016	13,319,101	-	13,319,101
Employee Benefits	3000	13,818,796	-	13,818,796	22,829,925	-	22,829,925
Supplies and Material	4000	-	-	-	728,944	-	728,944
Other Operating Expenses	5000	354,131	-	354,131	7,185,660	-	7,185,660
Equipment Replacement	6420	-	-	-	180,266	-	180,266
Total Expenditures Prior to Exclusions		41,437,648	-	41,437,648	76,354,069	-	76,354,069

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2017**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 5,084,202	\$ -	\$ 5,084,202	\$ 5,084,202	\$ -	\$ 5,084,202
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	1,641,251	-	1,641,251
Objects to Exclude							
Rents and Leases	5060	-	-	-	1,110,751	-	1,110,751
Lottery Expenditures							
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	1,123,969	-	1,123,969	1,123,969	-	1,123,969
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	254,299	-	254,299
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	254,299	-	254,299

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2017**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 500,571	\$ -	\$ 500,571
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	50,616	-	50,616
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	21,658	-	21,658
Total Equipment		-	-	-	72,274	-	72,274
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		6,208,171	-	6,208,171	9,787,317	-	9,787,317
Total for ECS 84362, 50 Percent Law		\$ 35,229,477	\$ -	\$ 35,229,477	\$ 66,566,752	\$ -	\$ 66,566,752
Percent of CEE (Instructional Salary Cost/Total CEE)		52.92%		52.92%	100.00%		100.00%
50% of Current Expense of Education					\$ 33,283,376		\$ 33,283,376

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

	Unrestricted General Fund	Restricted General Fund	Child Development Fund	Capital Outlay Projects Fund
FUND BALANCE				
Balance, June 30, 2017, (CCFS-311)	\$ 8,363,439	\$ 2,667,149	\$ 744,082	\$ 23,523,038
Decrease in:				
Accounts payable	20,430,991	1,903,239	236,295	212
Balance, June 30, 2017, Audited	<u>\$ 28,794,430</u>	<u>\$ 4,570,388</u>	<u>\$ 980,377</u>	<u>\$ 23,523,250</u>
	Revenue Bond Construction Fund	Workers' Compensation and Retiree Self Insurance Fund		
FUND BALANCE				
Balance, June 30, 2017, (CCFS-311)	\$ 21,710,027	\$ 14,411,677		
Increase in:				
Cash in with fiscal agent	-	11,292,920		
Decrease in:				
Accounts payable	153,470	-		
Balance, June 30, 2017, Audited	<u>\$ 21,863,497</u>	<u>\$ 25,704,597</u>		

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

Activity Classification	Object Code	Unrestricted			
EPA Proceeds:	8630				\$ 10,210,079
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 10,210,079			\$ 10,210,079
Total Expenditures for EPA		\$ 10,210,079	-	-	\$ 10,210,079
Revenues Less Expenditures					\$ -

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION JUNE 30, 2017

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

Total Fund Balance and Retained Earnings:

General Funds	\$ 33,364,818
Special Revenue Funds	5,371,541
Capital Outlay Projects	45,386,747
Debt Service Funds	8,041,663
Proprietary Fund	25,704,597
Fiduciary Funds	873,151

Total Fund Balances and Retained Earnings - All District Funds

\$ 118,742,517

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:	277,699,574	
Accumulated depreciation is:	<u>(69,338,389)</u>	208,361,185

Recognizing the OPEB asset resulting from the difference between annual OPEB cost on the accrual basis and the OPEB contributions in the governmental funds.

6,437,416

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.

(1,858,375)

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

Deferred outflows of resources related to pensions at year end consist of:

Pension contributions subsequent to measurement date	6,462,453
Differences between projected and actual earnings on pension plan investments	7,709,174
Differences between expected and actual experience in the measurement of the total pension liability	<u>1,060,401</u>

Total Deferred Outflows of Resources Related to Pensions

15,232,028

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:

Differences between expected and actual experience in the measurement of the total pension liability	(1,191,629)
Net change in proportionate share of the net pension liability	(3,336,253)
Changes in assumptions	<u>(740,736)</u>

Total Deferred Inflows of Resources Related to Pensions

(5,268,618)

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION, Continued
JUNE 30, 2017**

Governmental funds report deferred cost of refunding associated with the issuance of debt when first issued, whereas the amounts are deferred and amortized in the Statements of Activities.

Deferred charge on refunding at year end amounted to: \$ 1,119,953

Long-term obligations at year end consist of:

Bonds payable \$ 157,216,039

Compensated absences 721,338

Aggregate net pension liability 73,504,506

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

34,475,092 (265,916,975)

Total Net Position \$ 76,849,131

See accompanying note to supplementary information.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of funds have been recorded in the current period as revenues that have not been expended as of June 30, 2017. These unspent balances are reported as legally restricted ending balances within the Statement of Net Position - Primary Government.

Description	Amount
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Position:	\$ 19,864,536
Various Programs	(49,940)
Total Expenditures of Federal Awards	<u>\$ 19,814,596</u>

Schedule of Expenditures of State Awards

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

Schedule of Workload Measures for State General Apportionment

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.

RIO HONDO COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2017

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

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

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

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

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

Reconciliation of Governmental Funds to the Statement of Net Position

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

INDEPENDENT AUDITOR'S REPORTS



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

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

Board of Trustees
Rio Hondo Community College District
Whittier, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Rio Hondo Community College District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2017.

Emphasis of Matters

As discussed in Note 2 and Note 15 to the financial statements, in 2017, the District adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

Additionally, as discussed in Note 15 to the financial statements, the accompanying financial statements reflect certain changes as a result of a correction to the beginning asset and liability balances as of July 1, 2016. These changes required a restatement of the beginning net position of the District. Our opinion was not modified with respect to these matters.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the Schedule of Findings and Questioned Costs as identified as item 2017-001, to be a material weakness. See Finding 2017-001.

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*.

Rio Hondo Community College District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 7, 2017



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

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

Board of Trustees
Rio Hondo Community College District
Whittier, California

Report on Compliance for Each Major Federal Program

We have audited Rio Hondo 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, 2017. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the 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, 2017.

Report on Internal Control Over Compliance

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

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

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

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.



Rancho Cucamonga, California
December 7, 2017



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Rio Hondo Community College District
Whittier, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Basis for Qualified Opinion

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Section 424 – State General Apportionment Funding System (finding 2017-002) and Section 475 – Disabled Student Programs and Services (finding 2017-003). Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

Unmodified Opinion for Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2017, except as described in the State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Dual Enrollment of K-12 Students in Community College Credit Courses
Section 428	Student Equity
Section 429	Student Success and Support Program (SSSP)
Section 430	Schedule Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 439	Proposition 39 Clean Energy
Section 440	Intersession Extension Programs
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D and 51 State Bond Funded Projects
Section 491	Proposition 55 Education Protection Account Funds

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

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

Vivinet June Day & Co. LLP

Rancho Cucamonga, California
December 7, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>Yes</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>
84.007, 84.033, 84.063, 84.268, and 84.408	<u>Student Financial Assistance Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Qualified</u>
Unmodified for all State programs except for the following State programs which were qualified:	

<u>Name of State Program</u>
424 - State General Apportionment Funding System
<u>475 - Disabled Student Programs and Services (DSPS)</u>

RIO HONDO COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2017

The following finding represents a material weakness and/or instance of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2017-001 Overall Closing Process

Criteria or Specific Requirement

Best practices require a review and reconciliation of all account balances to reflect proper activity at year end in accordance with Generally Accepted Accounting Principles (GAAP).

Condition

Material Weakness - Accounts payable balances recorded in the governmental funds contained carry-over balances from prior years. It was determined that these balances represent liabilities that are noncurrent in nature and do not follow the economic resources measurement focus as specified in the California Community Colleges Chancellor's Office *Budget and Accounting Manual*.

A cash balance held in a "Retiree Health Insurance Fund" with the Southern California Community College District JPA for the benefit of the District was not recorded on the District's general ledger. These funds were not held in an irrevocable trust. Also, the District had a balance with the same JPA as part of the Workers' Compensation Program. This balance is identified by the JPA as a "Safety Credit Balance" and represents funds available to the District for payment of premiums and claims. The District has control of all amounts deposited and withdrawn from these accounts.

Several Federal and State categorical programs were not properly closed at year end. GASB Statement No. 33 requires that revenues equal expenses, up to the award amount, for categorical programs subject to unearned revenue accruals.

Questioned Costs

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

Context

The accounts payable balance associated with the long-term accruals was approximately \$22.7 million at the beginning of the year.

The cash and cash equivalent balance for the District at year end associated with the JPA accounts not recorded on the general ledger was approximately \$11.3 million.

For the 2016-2017 fiscal year, the District had miscellaneous differences throughout several programs.

RIO HONDO COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2017

Effect

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

Cause

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

Recommendation

As part of the closing process, the District should develop a procedure to review all accruals recorded in the governmental funds to ensure that they meet economic resources measurement focus recognition criteria. Carry-over balances from prior years should be analyzed to determine if the transaction still represents a valid liability to the fund.

The District should review the general ledger to ensure that all cash accounts held by the District, and for the benefit of the District, are reflected in the accounting records.

Per GASB Statement No. 33, categorical programs subject to unearned revenues recognize revenue when the qualifying expenditure is made. Revenue received, but not expended by the end of the fiscal year, must be reported as deferred revenue. For these types of programs, revenues are required to match qualifying expenditures. As part of the closing process, an accounts receivable or unearned revenue should be booked to properly close out the categorical programs for the difference between revenues and expenses.

Management's Response and Corrective Action Plan

The accounts payable and the cash balance comments are related to a change in accounting for pension obligations as called for under the new Governmental Accounting Standards Board (GASB) Statement No. 74 which was implemented by Rio Hondo College during fiscal year 2016-2017, the year under audit.

GASB Statement No. 74 requires that all funds designated to meet Other Postemployment Benefits (OPEB) obligations be held in an irrevocable fund rather than accounted for as an internal or external set aside, even with another Joint Powers Agency (JPA). Up until this point, Rio Hondo College accrued and accounted for balances to meet and address its institutional OPEB liabilities as local set asides.

Regarding the comment on several Federal and State categorical programs, the differences are deemed immaterial in comparison with the size of the General Fund.

RIO HONDO COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2017

These issues have already been addressed as follows:

- 1) Accounts payable balances in the governmental funds were transferred from the General Fund to retirees' health contribution under internal service fund in November 2017.
- 2) Cash balance with Southern California Community College JPA "Retiree Health Insurance Fund" was transferred in November 2017 to irrevocable trust with the Futuris Public Trust fund managed by Keenan & Associates.
- 3) There were small and insignificant differences between revenues and expenditures under categorical grants/programs, but these were both individually and in the aggregate immaterial to cause any material misstatement of the overall financial statements. We will do our best to equalize revenues and expenditures during the year-end closing process.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

RIO HONDO COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

2017-002 Section 424 - State General Apportionment Funding System

Criteria or Specific Requirement

California Code of Regulations, Title 5, Section 58003.1(b) states, "The governing board of each community college district shall, for each of its colleges or its district, select and establish a single primary term length for credit courses that are scheduled regularly with respect to the number of days of the week and the number of hours the course meets each week, inclusive of holidays."

Condition

The District incorrectly utilized a 17.5 term length multiplier (TLM) for alternative method daily credit courses utilizing the alternative attendance accounting census method. The District's approved TLM for the 2016-2017 year was 16.7. This was noted for both the P2 and Annual CCFS-320 reports.

Questioned Costs

The District's P2 and Annual CCFS-320 reports were overstated by 35.94 credit FTES.

Context

The District reported 433.02 credit FTES for daily alternative attendance census based courses on the Annual CCFS-320 report.

Effect

Due to the incorrect TLM being utilized by the District for these courses, FTES were materially overstated. Of the 25 courses tested, the auditors calculated a 1.23 FTES overstatement. The District performed a 100 percent recalculation using the correct TLM and arrived at a total overstatement of 35.94 credit FTES.

Cause

During an upgrade of the District's Banner system, tables were changed to reflect a TLM of 17.5 for alternative daily attendance method courses.

Recommendation

It is recommended that the District review the methods used by their system for calculating and reporting FTES. In addition, it is recommended that the District amend their Annual CCFS-320 report to reflect the results of their internal recalculation. This amendment was electronically certified by the District on November 3, 2017.

RIO HONDO COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

Management's Response and Corrective Action Plan

This error was already corrected before the submission of the 2016-2017 Apportionment Attendance Report for the Recalc Period and the affected FTES adjusted.

2017-003 Section 475 - Disabled Student Programs and Services (DSPS)

Criteria or Specific Requirement

California Code of Regulations (CCR) Title 5, Section 56062 states, "A community college district will be deemed to have "provided academic adjustments, auxiliary aids, services and/or instruction" to a student with a disability, as required by Section 56060, if the student is enrolled in an educational assistance class or is enrolled in a general class and received one or more service contacts each semester the student attends."

Condition

Out of the 25 DSPS student files reviewed, 2 of the files did not contain evidence of a service contact for the 2016-2017 fiscal year.

Questioned Costs

Based on reports received by the District, a combined 1,631 students were served in the Fall 2016 and Spring 2017 semesters. Extrapolation of the error percentage noted in the audit results in that up to 130 claimed students may be unsupported with evidence of a service contact.

Context

The District reported a total of 1,631 students served in the Fall 2016 and Spring 2017 semesters. The District reported \$908,173 in DSPS revenues for the 2016-2017 fiscal year.

Effect

The special funding for the DSPS program could be affected if program guidelines are not adhered to.

Cause

Student files are not being reviewed and updated on a regular basis to determine whether all necessary documentation is included within the student file.

Recommendation

The District should implement a control procedure for monitoring compliance issues related to this program to ensure that compliance requirements are met and proper contacts are being reported.

RIO HONDO COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

Management's Response and Corrective Action Plan

Management agrees with this finding and has implemented various systems, controls, and procedures to strengthen the tracking and reporting of one or more service contacts received for each semester student with a disability attends. Additionally, we have examined all the student files to ensure their reporting accuracy and compliance with State DSPS regulations. From our examination, we have concluded that these two were isolated incidences and should not be viewed to represent the whole affairs and operation of the program.

Systems implemented include:

- 1) SARS (Schedule and Reporting System) with the SARS Grid representing a crucial tool for tracking services.
- 2) The DSPS Department also maintains a parallel student data base that is compared to the MIS report to resolve any discrepancies prior to filing the MIS report.
- 3) The DSPS Department has included in its annual program plan the need and request for "AIM-Accessible Information Management", a scheduling and database management software to facilitate DSPS service provision and improve MIS reporting systems.

RIO HONDO COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.