

HARTNELL COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

June 30, 2015 and 2014

HARTNELL COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2015 and 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statements of Net Position	14
Statements of Revenues, Expenses and Change in Net Position	15
Statements of Cash Flows	16
Statements of Fiduciary Net Position	18
Statements of Change in Fiduciary Net Position	20
Discretely Presented Component Unit - Hartnell College Foundation - Statements of Financial Position	21
Discretely Presented Component Unit - Hartnell College Foundation - Statements of Activities	22
Notes to the Basic Financial Statements	24
Required Supplementary Information:	
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	60
Schedule of the District's Proportionate Share of the Net Pension Liability	61
Schedule of the District's Contributions	63
Note to Required Supplementary Information	65
Supplementary Information:	
Organization	66
Schedule of Expenditure of Federal Awards	67
Schedule of State Financial Awards	70
Schedule of Workload Measures for State General Apportionment	71

HARTNELL COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2015 and 2014

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
Supplementary Information: (Continued)	
Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements	72
Reconciliation of ECS 84362 (50 Percent Law) Calculation	73
Prop 30 EPA Expenditure Report	75
Note to Supplementary Information	76
Independent Auditor's Report on State Compliance Requirements	77
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 <i>Government Auditing Standards</i>	79
Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance	81
Findings and Recommendations:	
Schedule of Audit Findings and Questioned Costs	83
Status of Prior Year Findings and Recommendations	87

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hartnell Community College District
Salinas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and fiduciary activities of Hartnell Community College District, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Hartnell Community College District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Hartnell College Foundation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit and fiduciary activities of Hartnell Community College District, as of June 30, 2015 and 2014, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." Also, in November 2013 the GASB issued GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". As discussed in notes 8, 9 and 10, Statements No. 68 and No. 71 are effective for the District's fiscal year ending June 30, 2015. These Statements replace the requirements of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB Statement No. 50, "Pension Disclosures." GASB Statements No. 68 and No. 71 establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses as well as identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosures and required supplementary information (RSI) requirements about pensions are also addressed. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 13 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 60 to 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hartnell Community College District's basic financial statements. The accompanying schedule of expenditure of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents have 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 schedule of expenditures of federal awards and other supplementary information as listed in the table of contents are 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 8, 2015 on our consideration of Hartnell Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hartnell Community College District's internal control over financial reporting and compliance.


Crowe Horwath LLP

Sacramento, California
December 8, 2015

HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2015

USING THIS ANNUAL REPORT

In accordance with generally accepted accounting principles, the annual report consists of three basic financial statements that provide information on Hartnell Community College District's (the District) activities as a whole: the Statement of Net Position; the Statement of Revenues, Expenses, and Change in Net Position; and the Statement of Cash Flows.

The focus of the Statement of Net Position is designed to show the financial position of the District. This statement combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Change in Net Position focuses on the costs of the District's operational activities, which are supported mainly by property taxes and State revenues. This approach is intended to summarize and simplify the user's analysis of the costs of various District services to students and the public. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

Responsibility for the completeness and accuracy of this information rests with the District management.

FINANCIAL HIGHLIGHTS

- The District's primary funding source is based upon apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the 2014-15 fiscal year, second principal apportionment (P2) FTES at June 2015 were 7,160 as compared to 6,854 in the 2013-14 and 6,749 in the 2012-13 fiscal years. Of the total FTES generated, 7,082 were funded in 2014-15 based on P2 FTES and any additional funding for the recalculated FTES of 7,160 will be received in February 2016. 6,717 FTES were funded in 2013-14 and 6,565 FTES in 2012-13. The District has fully recovered all FTES workload restorations from the 2011-12 budget cuts made throughout the system during the recession.
- During the 2014-15 fiscal year, the District provided over \$20 million in financial aid to students. This aid was provided in the form of grants, scholarships, and tuition discounts funded through the Federal government, State Chancellor's Office, and local funding.
- The District passed \$131 million in general obligation bonds in November 2002 for the construction and renovation of buildings and equipment throughout the District. These projects were approved by the voters within the District's boundaries. The first series of \$35 million was issued in April 2003. The second series of \$35 million was issued in June 2006. The third series of \$12.6 million was issued in June 2009; proceeds were received in June 2009. The fourth series of \$48.4 million was issued in September 2009. Proceeds were received in October 2009. The District issued refunding bonds in January 2014 as follows: 2014 General Obligation Refunding Bonds, Series A (Federal tax-exempt) \$24,265,000; 2014 General Obligation Refunding Bonds, Series B (Federally taxable) \$10,220,000 to refund a portion of prior issued bonds. Over 85% of projects have been completed as of 6/30/2015. The remaining projects will be completed within the next two years.

HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2015

This schedule has been prepared from the District's Statement of Net Position in the audited financial statements, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Cash and short-term investments consist primarily of funds held in the Monterey County Treasury. The changes in the cash position are explained in the Statement of Cash Flows.

Unrestricted net position is composed of reserves for self-insurance, retiree health benefits, bookstore and cafeteria reserves, and general reserves for the ongoing financial health of the District.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

NET POSITION as of June 30, 2015

	(Amounts in thousands)		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Current Assets			
Cash and investments	\$ 19,757	\$ 16,129	\$ 14,317
Accounts receivable, net	3,760	7,966	8,110
Other current assets	<u>744</u>	<u>840</u>	<u>399</u>
Total Current Assets	24,261	24,935	22,826
Restricted cash and other non-current assets	23,505	36,709	43,561
Capital Assets, net	<u>155,267</u>	<u>148,064</u>	<u>147,280</u>
Total Assets	<u>\$ 203,033</u>	<u>\$ 209,708</u>	<u>\$ 213,667</u>
 DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows of resources - pensions	2,729		
Deferred loss on refunding	<u>3,497</u>	4,014	-
Total deferred outflows	<u>6,226</u>	<u>4,014</u>	-
Total assets and deferred outflows of resources	<u>\$ 209,259</u>	<u>\$ 213,722</u>	<u>\$ 213,667</u>
 LIABILITIES			
Current Liabilities			
Accounts payable, accrued liabilities and other current liabilities	\$ 11,202	\$ 13,109	\$ 10,317
Current portion of long-term obligations	<u>4,246</u>	<u>3,233</u>	<u>2,671</u>
Total Current Liabilities	15,448	16,342	12,988
Long-Term Obligations	<u>178,916</u>	<u>148,260</u>	<u>140,884</u>
Total Liabilities	<u>\$ 194,364</u>	<u>\$ 164,602</u>	<u>\$ 153,872</u>
 DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pensions	<u>8,014</u>	-	-
 NET POSITION			
Net investment in capital assets	21,841	28,999	42,293
Restricted	7,435	9,273	4,482
Unrestricted	<u>(22,395)</u>	<u>10,848</u>	<u>13,020</u>
Total Net Position	<u>6,881</u>	<u>49,120</u>	<u>59,795</u>
Total Liabilities and Net Position	<u>\$ 209,259</u>	<u>\$ 213,722</u>	<u>\$ 213,667</u>

There were substantial changes in ending balances for some major categories from 2014 prior fiscal year to current fiscal year. Restricted cash decreased by \$13.2 million from June 30, 2014. Restricted cash also decreased by \$6.9 million from June 30, 2013 as compared to June 30, 2014. The decreases were primarily due to spending of bond proceeds on new construction projects. The total net position has declined significantly due to the required implementation of Governmental Accounting Standards Board Statement (GASB) No. 68. For the first time, all public agencies that provide defined benefit pensions must recognize the long-term obligation for pension benefits as a liability. See Notes 9 and 10 of the Financial Statements for more detailed information.

HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2015

Operating Results for the Year Ended June 30, 2015

	(Amounts in thousands)		
	2015	2014	2013
Operating Revenues			
Tuition and fees	\$ 2,283	\$ 2,029	\$ 2,151
Grants and contracts	14,116	11,421	10,938
Sales and charges	<u>756</u>	<u>727</u>	<u>663</u>
Total Operating Revenues	<u>17,155</u>	<u>14,177</u>	<u>13,752</u>
Operating Expenses			
Salaries and benefits	41,616	36,892	33,361
Supplies, other operating expenses, and financial aid	25,302	23,444	21,764
Depreciation	<u>7,053</u>	<u>6,845</u>	<u>6,159</u>
Total Operating Expenses	<u>73,971</u>	<u>67,181</u>	<u>61,284</u>
Loss on Operations	<u>(56,816)</u>	<u>(53,004)</u>	<u>(47,532)</u>
Nonoperating Revenues and (Expenses)			
State apportionments	15,562	11,723	12,638
Property taxes	20,699	19,869	18,755
State revenues	947	29	-
Pell Grants	11,292	10,931	10,885
Interest income	106	79	53
Other nonoperating revenues and (expenses)	<u>2,060</u>	<u>2,678</u>	<u>2,060</u>
Total Nonoperating Revenue and (Expenses)	<u>50,666</u>	<u>45,309</u>	<u>44,391</u>
Other Revenues, Expenses, Gains and Losses			
State and local capital income	5,020	6,619	5,123
Interest income, Capital	157	179	191
Interest expenses and losses	<u>(7,420)</u>	<u>(9,777)</u>	<u>(9,513)</u>
Total Revenues, Expenses, Gains and Losses	<u>(2,243)</u>	<u>(2,979)</u>	<u>(4,199)</u>
Decrease in Net Position	<u>\$ (8,393)</u>	<u>\$ (10,674)</u>	<u>\$ (7,340)</u>

This schedule has been prepared from the Statement of Revenues, Expenses, and Change in Net Position presented in the audited financial statements.

Sales and charges consist of cafeteria revenues. The operations are self-supporting.

HARTNELL COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2015**

Grant and contract revenues relate to student financial aid, as well as specific Federal and State grants received for programs serving the students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs.

Non-operating Revenues increased in 2015 due to an increase in Cost of Living Adjustment (COLA) and growth/restoration funding. The COLA rate increase was 0.85% of FTES funding base and growth/restoration was 5.33% of prior year's District FTES serviced. A few State categorical programs received an increase in funding such as Disabled Student Programs and Services (DSPS), Student Success and Support Program (SSSP) as well as new categorical funding for Student Equity Plans (SEP).

Operating expenses increased in 2015 compared to 2014 due to a number of factors. The greatest increase was in salaries and benefits. This was due primarily to the hiring of additional faculty and staff and providing a 4% salary increase to all District employees. Operating expenses also increased in 2014 compared to 2013. The greatest increase was in salaries and benefits primarily due to a 5% salary increase to all District employees as well as the hiring of additional faculty and staff.

Non-operating interest expense relates directly to debt service requirements of the general obligation bonds.

The District is recording the depreciation expense related to capital assets. The detail of the changes in capital assets for the year is included in the notes to the financial statements as Note 4.

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

Statement of Cash Flows for the Year Ended June 30, 2015

	(Amounts in thousands)		
	2015	2014	2013
Cash Provided by (Used in)			
Operating activities	\$ (51,508)	\$ (40,484)	\$ (37,656)
Noncapital financing activities	54,748	42,345	43,740
Capital financing activities	(12,922)	(6,980)	(12,668)
Investing activities	106	79	-
Net (Decrease) in Cash	(9,576)	(5,040)	(6,584)
Cash, Beginning of Year	52,839	57,879	64,463
Cash, End of Year	<u>\$ 43,263</u>	<u>\$ 52,839</u>	<u>\$ 57,879</u>

The primary operating receipts are student tuition and fees and Federal, State, and local grants and contracts. The primary operating expense of the District is the payment of salaries and benefits to faculty and staff.

HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2015

While State apportionment, Education Protection Act funding and property taxes are the primary sources of noncapital related revenue, GASB accounting standards require that this source of revenue is shown as non-operating revenue because it comes from the general resources of the State and not from the primary users of the District's programs and services. The District depends upon this funding as the primary source of funds to continue the current level of operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had \$155.3 million in a broad range of capital assets, including land, buildings, and furniture and equipment, net of depreciation. At June 30, 2014, net capital assets were \$148.1 million. At June 30, 2013, net capital assets were \$147.3 million. The District is currently near the end of a major capital improvement project with one remaining construction project at the West campus location. These projects are funded primarily through local and state general obligation bonds.

The majority of our West campus property was purchased in 1936 and 1954 from the U.S. Government. The Alisal campus property was purchased for \$1 from the U.S. Government in 1948. The King City Center was purchased in 2001 for \$1.2 million. Capital assets reported within these financial statements reflect the cost at the time of purchase. Current market values of our property are not reflected in the financial statements.

Capital projects are planned for the 2015-16 fiscal year with funding through the general obligation bonds.

	(Amounts in thousands)		
	2015	2014	2013
Land and construction in progress	\$ 20,129	\$ 8,119	\$ 12,085
Buildings and improvements	177,959	177,667	167,650
Furniture and equipment	18,236	16,282	14,704
Subtotal	216,324	202,068	194,439
Accumulated depreciation	61,058	54,005	47,159
Totals	<u>\$ 155,266</u>	<u>\$ 148,063</u>	<u>\$ 147,280</u>

HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2015

Long-Term Obligations

At the end of the 2014-15 fiscal year, the District had \$149.3 million in bonds outstanding from the voter approved general obligation bonds and other long-term obligations. These bonds will be repaid annually through property taxes on assessed property within the Hartnell Community College District boundaries.

	(Amounts in thousands)		
	2015	2014 as restated	2013
General obligation bonds	\$ 149,329	\$ 146,269	\$ 138,626
Premium on obligations	3,513	3,753	3,838
Net pension liability	28,533	36,076	
Early retirement incentive	273	325	379
Other post employment benefits	1,515	1,146	949
Total	<u>183,163</u>	<u>187,569</u>	<u>143,792</u>
Less short term portion	<u>(4,247)</u>	<u>(3,234)</u>	<u>(2,671)</u>
Total long-term portion	<u>\$ 178,916</u>	<u>\$ 184,335</u>	<u>\$ 141,121</u>

District bond ratings have changed as a result of the reaffirmation of the District’s accreditation and the increase to property values in recent years. The rating from Moody’s Investors Service has been upgraded from a rating of A1 Standard in August 2010 for Series A, B, C, and D to a rating of Aa2 in October 2014. There has been no change to ratings as of June 30, 2015. Subsequent to the fiscal year-end, Standard and Poor’s Rating Services reaffirmed their rating of AA- with a stable outlook. “The rating reflects our opinion of the district’s large and diverse property tax base with access to the economies of San Jose and Silicon Valley, coupled with good household income and very strong property wealth indicators.” Quote from Standard & Poor’s Rating Services, Ratings Direct – 08 Oct 2015.

ECONOMIC FACTORS AFFECTING THE FUTURE OF HARTNELL COMMUNITY COLLEGE DISTRICT

The economic position of Hartnell Community College District is closely tied to the State of California as State apportionments and property taxes allocated to the District represent approximately 85 percent of the total sources of revenues received by the District for unrestricted general operating fund. The District is aligning its course offerings with the restoration/growth funding increase as issued by the Chancellor’s Office.

HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2015

ECONOMIC FACTORS AFFECTING THE FUTURE OF HARTNELL COMMUNITY COLLEGE DISTRICT (Continued)

With the passage of Proposition 30, The Education Protection Act, funding for California educational institutions has stabilized. For fiscal year 2014-2015, Hartnell College received a COLA of 0.85% and restoration/growth funding of 5.33%. Hartnell College has increased Full Time Equivalent Student (FTES) count by approximately 340 FTES over fiscal year 2013-14. Funding for FTES was at 7,082 FTES. Hartnell serviced 7,194 FTES, 112 FTES above the funding level. Restoration of 2011-12 workload reduction has generated the additional funding needed to support the additional FTES funding level. Hartnell increased property tax revenues by approximately \$0.8 million for 2014-15.

The District issued general obligation bonds in April 2003 to fund various construction projects throughout the District. The District issued a second series of general obligation bonds in June 2006, a third series in June 2009, and a fourth series in September 2009. All bonds, related to the 2002 Measure H election, have been issued as of September 2009. The District issued refunding bonds in January of 2014 as follows: 2014 General Obligation Refunding Bonds, Series A (Federal tax-exempt) \$24,265,000; 2014 General Obligation Refunding Bonds, Series B (Federally taxable) \$10,220,000 to refund a portion of prior issued bonds. The major project outstanding is the West campus Science Building. Completion date is anticipated to be spring 2016.

At the time the 2015-16 budget was developed, the following assumptions were made:

- The 2015-16 State budget for community colleges contains Cost of Living Allowance (COLA) increase at 1.02%.
- The 2015-16 State budget for community colleges contains an increase of 3.00% in funding for growth.

The 2015-16 State budget for community colleges contains a significant amount of one time funding. Included in categorical funding was \$927,960 for scheduled maintenance without the requirement for District match funds. The state will allow, once again, for part of the funding to be used for educational equipment at the discretion of the District. The District designated \$462,000 of the \$927,960 to be used to purchase educational equipment. The District also received \$3.9M in state compliance mandate funding and an increase of approximately \$1.2 million in Student Success and Student Equity funding over prior fiscal year.

HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2015

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. Questions may be directed to the Vice President of Administrative Services, Hartnell Community College District, 411 Central Avenue, Salinas, CA 93901.

BASIC FINANCIAL STATEMENTS

HARTNELL COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET POSITION

June 30, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 19,757,341	\$ 16,129,348
Receivables, net	3,760,438	7,965,878
Prepaid expenses	729,550	818,332
Inventory	<u>14,473</u>	<u>21,888</u>
Total current assets	<u>24,261,802</u>	<u>24,935,446</u>
Noncurrent assets:		
Restricted cash and cash equivalents	23,505,416	36,709,157
Depreciable capital assets	135,136,900	139,944,142
Non-depreciable capital assets	<u>20,129,227</u>	<u>8,119,112</u>
Total noncurrent assets	<u>178,771,543</u>	<u>184,772,411</u>
Total assets	<u>203,033,345</u>	<u>209,707,857</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	2,729,267	-
Deferred loss on refunding of long-term liabilities	<u>3,497,174</u>	<u>4,014,191</u>
Total deferred outflows	<u>6,226,441</u>	<u>4,014,191</u>
Total assets and deferred outflows of resources	<u>\$ 209,259,786</u>	<u>\$ 213,722,048</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 9,360,823	\$ 12,002,452
Unearned revenue	1,840,810	1,106,190
Long-term liabilities - current portion	<u>4,246,779</u>	<u>3,233,468</u>
Total current liabilities	<u>15,448,412</u>	<u>16,342,110</u>
Noncurrent liabilities:		
Long-term liabilities - noncurrent portion	<u>178,916,101</u>	<u>148,259,482</u>
Total liabilities	<u>194,364,513</u>	<u>164,601,592</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	<u>8,014,000</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	21,841,277	28,998,827
Restricted for:		
Expendable:		
Capital projects and debt service	7,394,508	9,247,772
Other special purposes	40,831	26,104
Unrestricted	<u>(22,395,343)</u>	<u>10,847,753</u>
Total net position	<u>6,881,273</u>	<u>49,120,456</u>
Total liabilities and net position	<u>\$ 209,259,786</u>	<u>\$ 213,722,048</u>

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Tuition and fees	\$ 5,564,767	\$ 8,205,121
Less: scholarship discounts and allowances	<u>(3,281,547)</u>	<u>(6,176,528)</u>
Net tuition and fees	<u>2,283,220</u>	<u>2,028,593</u>
Grants and contracts, non-capital:		
Federal	5,586,139	5,702,787
State	8,530,192	5,717,883
Auxiliary enterprise sales and charges	<u>755,827</u>	<u>727,855</u>
Total operating revenues	<u>17,155,378</u>	<u>14,177,118</u>
Operating expenses:		
Salaries	30,794,754	27,673,204
Employee benefits	10,820,825	9,218,945
Supplies, materials, and other operating expenses and services	12,168,571	10,773,540
Student aid	13,133,686	12,670,286
Depreciation	<u>7,053,285</u>	<u>6,845,441</u>
Total operating expenses	<u>73,971,121</u>	<u>67,181,416</u>
Loss from operations	<u>(56,815,743)</u>	<u>(53,004,298)</u>
Non-operating revenues (expenses):		
State apportionment, non-capital	15,561,885	11,722,902
Local property taxes	20,698,496	19,869,456
State taxes and other revenues	947,000	29,320
Pell grants	11,291,642	10,930,585
Interest and investment income, non-capital	106,415	78,908
Interest and investment income, capital	156,970	178,613
Interest expense on capital asset-related debt	(7,420,216)	(9,776,401)
Other non-operating revenues, net	<u>2,060,082</u>	<u>2,678,014</u>
Total non-operating revenues (expenses)	<u>43,402,274</u>	<u>35,711,397</u>
Loss before capital revenues	<u>(13,413,469)</u>	<u>(17,292,901)</u>
Capital revenues:		
Local property taxes and revenue, capital	5,020,489	5,151,195
Other capital revenues	<u>-</u>	<u>1,467,377</u>
Total capital revenues	<u>5,020,489</u>	<u>6,618,572</u>
Change in net position	(8,392,980)	(10,674,329)
Net position, July 1, 2014	49,120,456	59,794,785
Cumulative effect of GASB 68 implementation	<u>(33,846,203)</u>	<u>-</u>
Net position, July 1, 2014, as restated	<u>15,274,253</u>	<u>59,794,785</u>
Net position, end of year	<u>\$ 6,881,273</u>	<u>\$ 49,120,456</u>

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Tuition and fees	\$ 2,331,305	\$ 575,460
Federal grants and contracts	5,816,093	5,632,923
State and local grants and contracts	8,763,237	8,840,145
Payments to students	(13,133,686)	(12,681,809)
Payments to suppliers and vendors	(14,714,003)	(6,829,514)
Payments to and on behalf of employees	(41,327,217)	(36,749,397)
Auxiliary enterprises sales and charges	<u>755,827</u>	<u>727,855</u>
Net cash used in operating activities	<u>(51,508,444)</u>	<u>(40,484,337)</u>
Cash flows from noncapital financing activities:		
State appropriations	19,742,003	7,542,784
Local property taxes	20,698,496	19,869,456
State taxes and other revenues	947,000	29,320
Pell grants	11,291,642	10,930,585
Other receipts	<u>2,068,851</u>	<u>3,972,501</u>
Net cash provided by noncapital financing activities	<u>54,747,992</u>	<u>42,344,646</u>
Cash flows from capital and related financing activities:		
Local property taxes and other revenues for capital purposes	5,020,489	6,618,572
Interest received on capital investments	156,970	178,613
Purchase of capital assets	(14,256,158)	(7,628,903)
Principal paid on capital debt	(1,521,699)	(1,481,574)
Interest paid on capital debt, net	<u>(2,321,313)</u>	<u>(4,666,216)</u>
Net cash used in capital and related financing activities	<u>(12,921,711)</u>	<u>(6,979,508)</u>
Cash flows provided by investing activities:		
Interest on investments	<u>106,415</u>	<u>78,908</u>
Net decrease in cash and cash equivalents	(9,575,748)	(5,040,291)
Cash and cash equivalents, beginning of year	<u>52,838,505</u>	<u>57,878,796</u>
Cash and cash equivalents, end of year	<u>\$ 43,262,757</u>	<u>\$ 52,838,505</u>

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended June 30, 2014 and 2013

	<u>2015</u>	<u>2014</u>
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (56,815,743)	\$ (53,004,298)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation expense	7,053,285	6,845,441
Changes in assets and liabilities:		
Receivables, net	462,999	3,052,398
Inventory and prepaid expenses	96,197	(441,203)
Deferred outflows of resources - pensions	(499,470)	-
Accounts payable	(2,641,629)	4,385,229
Unearned revenue	48,085	(1,453,133)
Due to fiduciary funds	-	(11,523)
Other postemployment benefits and early retirement incentive	316,832	142,752
Net pension liability	(7,543,000)	-
Deferred inflows of resources - pensions	<u>8,014,000</u>	<u>-</u>
 Net cash used in operating activities	 <u><u>\$ (51,508,444)</u></u>	 <u><u>\$ (40,484,337)</u></u>
 Supplementary disclosure of non-cash transactions:		
Amortization of premiums on debt	\$ 240,089	\$ 84,720
Accretion of interest	\$ 5,980,187	\$ 5,962,981

During the year ended June 30, 2014, the District issued general obligation refunding bonds to refund existing debt outstanding. The proceeds from the refunding issuance totaled \$34,201,903 for the future defeasance of \$29,591,556 of previously outstanding general obligation bonds.

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT

STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2015

	<u>Trust Funds</u>	<u>Student Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 201,044	\$ 443,884
Receivables, net	<u>27,896</u>	<u>433</u>
Total assets	<u>\$ 228,940</u>	<u>\$ 444,317</u>
LIABILITIES		
Accounts payable	\$ 1,694	\$ 6,763
Due to student groups	<u>-</u>	<u>437,554</u>
Total liabilities	<u>1,694</u>	<u>444,317</u>
NET POSITION		
Restricted net position held in trust	<u>227,246</u>	<u>-</u>
Total liabilities and net position	<u>\$ 228,940</u>	<u>\$ 444,317</u>

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT

STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2014

	<u>Trust Funds</u>	<u>Student Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 237,134	\$ 513,056
Receivables, net	221	322
Prepaid expenses	-	800
Due from other funds	<u>41</u>	<u>12,072</u>
Total assets	<u>\$ 237,396</u>	<u>\$ 526,250</u>
LIABILITIES		
Accounts payable	\$ 21,340	\$ 8,004
Due to student groups	<u>-</u>	<u>518,246</u>
Total liabilities	<u>21,340</u>	<u>526,250</u>
NET POSITION		
Restricted net position held in trust	<u>216,056</u>	<u>-</u>
Total liabilities and net position	<u>\$ 237,396</u>	<u>\$ 526,250</u>

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CHANGE IN FIDUCIARY NET POSITION
For the Years Ended June 30, 2015 and 2014

	Trust Funds	
	<u>2015</u>	<u>2014</u>
Additions:		
Local revenues	\$ 105,271	\$ 96,959
Interest and investment income	<u>934</u>	<u>960</u>
Total additions	<u>106,205</u>	<u>97,919</u>
Deductions:		
Operating expenses	<u>95,015</u>	<u>121,019</u>
Net increase (decrease)	11,190	(23,100)
Net position held in trust:		
Net position, beginning of year	<u>216,056</u>	<u>239,156</u>
Net position, end of year	<u><u>\$ 227,246</u></u>	<u><u>\$ 216,056</u></u>

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT -
HARTNELL COLLEGE FOUNDATION
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 2,925,250	\$ 2,837,215
Grants/Pledges receivable, net	886,347	684,921
Prepaid expenses	<u>36,148</u>	<u>19,147</u>
Total current assets	<u>3,847,745</u>	<u>3,541,283</u>
Noncurrent assets:		
Pledges receivable, net of current portion	363,333	380,000
Investments	6,994,985	6,774,397
Property and equipment, net	<u>326,582</u>	<u>326,582</u>
Total noncurrent assets	<u>7,684,900</u>	<u>7,480,979</u>
Total assets	<u>\$ 11,532,645</u>	<u>\$ 11,022,262</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 568,986	\$ 670,023
Scholarships payable	201,389	183,025
Deferred revenue	<u>45,980</u>	<u>32,652</u>
Total current liabilities	<u>816,355</u>	<u>885,700</u>
NET ASSETS		
Net assets:		
Unrestricted	777,547	664,346
Temporarily restricted	4,708,584	4,541,861
Permanently restricted	<u>5,230,159</u>	<u>4,930,355</u>
Total net assets	<u>10,716,290</u>	<u>10,136,562</u>
Total liabilities and net assets	<u>\$ 11,532,645</u>	<u>\$ 11,022,262</u>

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT -
HARTNELL COLLEGE FOUNDATION
(A Nonprofit Organization)

STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Donations	\$ 142,167	\$ 2,256,081	\$ 269,804	\$ 2,668,052
Special events	211,086	81,175	-	292,261
In-kind donations	222,294	22,596	-	244,890
Interest and dividends	3,256	177,259	-	180,515
Realized gain on investments	-	304,665	-	304,665
Unrealized loss on investments	-	(170,739)	-	(170,739)
Other revenue	120,968	270,326	-	391,294
Interfund transfers	(55,000)	25,000	30,000	-
Net assets released from restriction	<u>2,799,640</u>	<u>(2,799,640)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,444,411</u>	<u>166,723</u>	<u>299,804</u>	<u>3,910,938</u>
Expenses:				
Program expenses	2,930,599	-	-	2,930,599
Operating expenses	229,256	-	-	229,256
Fundraising expenses	<u>171,355</u>	<u>-</u>	<u>-</u>	<u>171,355</u>
Total expenses	<u>3,331,210</u>	<u>-</u>	<u>-</u>	<u>3,331,210</u>
Change in net assets	<u>113,201</u>	<u>166,723</u>	<u>299,804</u>	<u>579,728</u>
Net assets, July 1, 2014	<u>664,346</u>	<u>4,541,861</u>	<u>4,930,355</u>	<u>10,136,562</u>
Net assets, June 30, 2015	<u>\$ 777,547</u>	<u>\$ 4,708,584</u>	<u>\$ 5,230,159</u>	<u>\$ 10,716,290</u>

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT -
HARTNELL COLLEGE FOUNDATION
(A Nonprofit Organization)

STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Donations	\$ 73,038	\$ 2,148,285	\$ 167,228	\$ 2,388,551
Special events	226,413	103,550	-	329,963
In-kind donations	201,741	39,981	-	241,722
Interest and dividends	3,531	132,359	-	135,890
Realized gain on investments	-	279,101	-	279,101
Unrealized gain on investments	-	709,388	-	709,388
Other revenue	151,890	109,829	-	261,719
Interfund transfers	(32,000)	(18,700)	50,700	-
Net assets released from restriction	<u>3,061,813</u>	<u>(3,061,813)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,686,426</u>	<u>441,980</u>	<u>217,928</u>	<u>4,346,334</u>
Expenses:				
Program expenses	3,091,482	-	-	3,091,482
Operating expenses	419,065	-	-	419,065
Fundraising expenses	<u>120,209</u>	<u>-</u>	<u>-</u>	<u>120,209</u>
Total expenses	<u>3,630,756</u>	<u>-</u>	<u>-</u>	<u>3,630,756</u>
Change in net assets	<u>55,670</u>	<u>441,980</u>	<u>217,928</u>	<u>715,578</u>
Net assets, July 1, 2013	<u>608,676</u>	<u>4,099,881</u>	<u>4,712,427</u>	<u>9,420,984</u>
Net assets, June 30, 2014	<u>\$ 664,346</u>	<u>\$ 4,541,861</u>	<u>\$ 4,930,355</u>	<u>\$ 10,136,562</u>

See accompanying notes to the basic financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Hartnell Community College District (the "District") is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Codification Section (Cod. Sec.) 2100.101. The District is classified as a state instrumentality under Internal Revenue Code Section 115.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Cod. Sec. 2100. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The District identified the Hartnell College Foundation (the "Foundation") as its potential component unit.

The Foundation is a nonprofit, tax-exempt organization dedicated to providing financial benefits generated from fundraising efforts and investment earnings to the District. The funds contributed by the Foundation to the benefit of the District are significant to the District's financial statements. The District applied the criteria for identifying component units in accordance with GASB Cod. Sec. 2100 and therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District's financial statements. Copies of the Foundation's annual financial report may be obtained from the District Office, 411 Central Avenue, Salinas, California 93901.

Basis of Presentation and Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB. Under this model, the District's financial statements provide a comprehensive entity-wide perspective of the District's financial position and activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when the obligation has been incurred. All significant intra-agency transactions have been eliminated.

Fiduciary funds for which the District acts only as an agent are not included in the business-type activities of the District. These funds are reported in the Statements of Fiduciary Net Position and the Statements of Change in Fiduciary Net Position at the fund financial statement level.

The Foundation's financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred in accordance with accounting principles generally accepted in the United States of America. Classification of contributions is dependent upon whether the contribution is restricted or unrestricted. Net assets are classified on the Statements of Financial Position as unrestricted, temporarily restricted or permanently restricted net position based on the absence or existence of donor-imposed restrictions.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The District records revenues when earned and expenses when a liability is incurred regardless of the timing of the related cash flow. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's *Budget and Accounting Manual*.

Cash and Cash Equivalents

For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the County Treasury are considered cash equivalents and are stated at fair value.

Restricted Cash and Cash Equivalents

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as noncurrent assets in the Statements of Net Position.

Fair Value of Investments - Foundation

The Foundation's investments are valued at fair value based upon quoted market prices, when available, or estimates of fair value in the Statements of Financial Position and unrealized and realized gains and losses are included in the Statements of Activities.

Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance is based upon management's estimates and analysis. The allowance was estimated at \$313,343 and \$169,062 as of June 30, 2015 and 2014, respectively.

Pledges Receivable - Foundation

Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. An allowance for uncollectible pledges receivable is established based upon estimated losses related to specific amounts and is recorded through a provision for bad debt which is charged to expense. At June 30, 2015 and 2014, management has determined that an allowance for uncollectible pledges is not necessary. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates commensurate with risks applicable in the years in which those promises are received. As of June 30, 2015 and 2014, the Foundation has not applied a present value discount as the amount was not significant.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of cafeteria food and educational supplies. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or, if donated, at fair market value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 – 50 years depending on asset type.

The District capitalizes interest paid on obligations related to the acquisition, construction or rehabilitation of District capital assets. Interest incurred and capitalized totaled \$8,254,435 and \$826,546, respectively, for the year ended June 30, 2015. Interest incurred and capitalized totaled \$9,493,304 and \$636,158, respectively, for the year ended June 30, 2014.

Compensated Absences

Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District.

Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and PERS employees, when the employee retires.

Unearned Revenue

Revenues from Federal, State and local special projects and programs is recognized when qualified expenditures have been incurred. Tuition, fees and other support received but not earned are recorded as unearned revenue until earned.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position include a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding, which is in the Statements of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. Additionally, for the year ended June 30, 2015, the District has recognized a deferred outflow of resources related to the payments made subsequent to the measurement date for the pensions.

In addition to liabilities, the Statements of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. For the year ended June 30, 2015, the District has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the statement of net position.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The following is a summary of pension amounts in aggregate:

	<u>CalSTRS</u>	<u>CalPERS</u>	<u>Total</u>
Deferred outflows of resources	\$ 1,400,416	\$ 1,328,851	\$ 2,729,267
Deferred inflows of resources	\$ 4,527,000	\$ 3,487,000	\$ 8,014,000
Net pension liability	\$ 18,385,000	\$ 10,148,000	\$ 28,533,000
Pension expense	\$ 2,539,095	\$ 951,952	\$ 3,491,047

Net Position

The District's net position is classified as follows:

Net investment in capital assets: This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

Restricted net position: Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Nonspendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal. At June 30, 2015 and 2014, there is no balance of nonexpendable restricted net position.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, State apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District typically applies the expense toward restricted resources, then to unrestricted resources.

Net Assets - Foundation

The Foundation's net assets are classified as follows:

Unrestricted: Unrestricted net assets consist of all resources of the Foundation, which have not been specifically restricted by a donor.

Temporarily restricted: Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the Statements of Activities as net assets released from restriction.

Permanently restricted: Permanently restricted net assets are nonexpendable net assets consisting of endowment and similar type funds in which the donor has stipulated as condition of the gift, that the principal be maintained in perpetuity.

The Foundation's endowment assets consist of individual funds established for the purpose to provide financial support to the Foundation in perpetuity. The endowment assets include donor-restricted endowment funds. Net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets - Foundation (Continued)

The Board of Directors of the Foundation has interpreted Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard prudence prescribed by UPMIFA.

The Foundation has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes investment grade mutual bond funds and equity securities, that is intended to result in a consistent inflation-protected rate of return. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Foundation uses a method based upon the total return on assets to determine the amounts appropriated for expenditures for endowments under which the organization is the income beneficiary in conformity with UPMIFA. To satisfy its long-term rate-of-return objectives, the Foundation seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes equity and debt investments to achieve its long-term return objectives within prudent risk constraints.

State Apportionments

Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to a recalculation will be recorded in the year completed by the state. When known and measurable, these recalculations and corrections are accrued in the year in which FTES are generated.

Classification of Revenue and Expenses

The District has classified its revenues and expenses as either operating or nonoperating revenues and expenses. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Cod. Sec. Co5.101 including State appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

Operating revenues and expenses: Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most Federal, State and local grants and contracts and Federal appropriations. All expenses are considered operating expenses except for interest expense on capital related debt.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Revenue and Expenses (Continued)

Nonoperating revenues and expenses: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Pell grants, gifts and contributions, and other revenue sources described in GASB Cod. Sec. Co5.101, such as State appropriations and investment income.

Contributions

All contributions received by the Foundation are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net position classes. Unconditional promises to give that are silent as to the due date are presumed to be time restricted by the donor until received and are reported as temporarily restricted net assets.

Scholarship Discounts and Allowances

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Change in Net Position. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

Tax Status - Foundation

The Foundation is a nonprofit public benefit corporation exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation has been classified as an organization that is not a private foundation and has been designated as a "publicly supported" organization. Contributions to the Foundation are deductible under Section 170(c)(2). The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Interest and penalties on tax assessments are classified as an expense when incurred. For the years ended June 30, 2015 and 2014, the Foundation did not incur any interest or penalties.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status - Foundation (Continued)

Income tax returns for the Foundation are filed in U.S. federal and state of California jurisdictions. Tax returns remain subject to examination by the U.S. federal jurisdiction for three years after the return is filed and for four years by the California jurisdiction. There are currently no tax years under examination.

New Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and GASB Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement is effective for the District's financial period beginning July 1, 2014. The District did not retroactively implement these Statements as of July 1, 2013 because the defined benefit plans the District participates in, the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS), did not have the information readily available. Therefore certain disclosures required under previous GASB statements are disclosed for fiscal year 2014. Based on the implementation of Statement No. 68, the District's July 1, 2014 net position was restated by \$33,846,203 because of the recognition of the net pension liability and deferred outflows of resources.

In November 2013, the GASB issued GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for the District's fiscal year ending June 30, 2015. Based on the implementation of GASB Statement No. 71, the District established a deferred outflow category to report the payments made subsequent to the measurement date of the pensions as well as deferred inflow category to report the net differences between projected and actual earnings on investments of the pensions in the statement of net position.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In February 2015, the GASB issued its final standard on accounting and financial reporting issues related to fair value measurements, applicable primarily to investments made by state and local governments. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under GASB Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. Before the issuance of GASB Statement No. 72, state and local governments have been required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. This statement is effective for the District's fiscal year ending June 30, 2016. Management has not determined what impact this statement will have on its financial statements.

In June 2015, the GASB issued GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of Statements No. 67 and 68, completes the suite of pension standards. GASB Statement No. 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by GASB Statements No. 67 and No. 68). The requirements in GASB Statement No. 73 for reporting pensions generally are the same as in GASB Statement No. 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The provisions in GASB Statement No. 73 are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management has not determined what impact this statement will have on its financial statements.

In June 2015, the GASB issued GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. GASB Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The GASB Statement follows the framework for financial reporting of defined benefit OPEB plans in GASB Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. GASB Statement No. 74 also sets forth note disclosure requirements for defined contribution OPEB plans. This statement is effective for the District's fiscal year ending June 30, 2017. Management has not determined what impact this statement will have on its financial statements.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2015, the GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. GASB Statement No. 75 carries forward from GASB Statement No. 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances (called special funding situations) GASB Statement No. 75 requires these governments to recognize in their financial statements a share of the other government's net OPEB liability. This statement is effective for the District's fiscal year ending June 30, 2018. Earlier application is encouraged. Management has not determined what impact this statement will have on its financial statements, however it is expected to be significant.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2015, the GASB issued GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The first category of authoritative GAAP consists of Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. That will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. The Statement also is intended to improve implementation guidance by elevating its authoritative status to a level that requires it be exposed for a period of broad public comment prior to issuance, as is done for other GASB pronouncements. In connection with GASB Statement No. 76, the GASB also recently cleared Implementation Guide No. 2015-1, which incorporates changes resulting from feedback received during the public exposure of all of implementation guidance previously issued. This statement is effective for the District's fiscal year ending June 30, 2016. Management has not determined what impact this statement will have on its financial statements.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments at June 30, 2015, consisted of the following:

	<u>District</u>	<u>Fiduciary</u>
Pooled Funds:		
Cash in County Treasury	\$ 42,753,932	\$ 613,533
Deposits:		
Cash on hand and in banks	<u>508,825</u>	<u>31,395</u>
Total cash and cash equivalents	<u>43,262,757</u>	<u>644,928</u>
Less: restricted cash and cash equivalents		
Cash in County Treasury	<u>23,505,416</u>	<u>-</u>
Net cash and cash equivalents	<u>\$ 19,757,341</u>	<u>\$ 644,928</u>

Foundation cash and cash equivalents at June 30, 2015, totaled \$2,925,250.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2015

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Cash, cash equivalents and investments at June 30, 2014, consisted of the following:

	<u>District</u>	<u>Fiduciary</u>
Pooled Funds:		
Cash in County Treasury	\$ 51,899,408	\$ 485,816
Investments - LAIF	<u>240,639</u>	<u>229,040</u>
Total pooled funds	<u>52,140,047</u>	<u>714,856</u>
Deposits:		
Cash on hand and in banks	<u>698,458</u>	<u>35,334</u>
Total cash and cash equivalents	<u>52,838,505</u>	<u>750,190</u>
Less: restricted cash and cash equivalents		
Cash in County Treasury	<u>36,709,157</u>	<u>-</u>
Net cash and cash equivalents	<u>\$ 16,129,348</u>	<u>\$ 750,190</u>

Foundation cash and cash equivalents at June 30, 2014, totaled \$2,837,215.

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. Those pooled funds are carried at fair value, which approximates cost.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial risk classifications is required.

The District's deposits in the fund are considered to be highly liquid. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The County Treasurer has indicated that there are no derivatives in the pool as of June 30, 2015 and June 30, 2014.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2015

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized.

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2015, the carrying amount of the District's accounts, including fiduciary accounts, were \$540,220, and the bank balances were \$533,520. The total uninsured bank balances at June 30, 2015 were \$223,898. At June 30, 2014, the carrying amount of the District's accounts, including fiduciary accounts, were \$733,792, and the bank balances were \$710,208. The total uninsured bank balances at June 30, 2014 were \$441,108.

At June 30, 2015, the bank balance of the Foundation's cash in banks and with brokers was \$3,059,113 of which \$821,718 was uninsured. At June 30, 2014, the bank balance of the Foundation's cash in banks and with brokers was \$2,877,040 of which \$662,340 was uninsured.

Interest Rate Risk

The District and Foundation's investment policies do not limit cash and investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates. At June 30, 2015 and 2014, the District and Foundation had no significant interest rate risk related to cash and investments held.

Concentration of Credit Risk

The District and Foundation do not place limits on the amount they may invest in any one issuer. At June 30, 2015 and 2014, the District and Foundation had no concentration of credit risk.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2015

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Foundation Investments

Foundation investments at June 30, consisted of the following:

	<u>2015</u>	<u>2014</u>
Fixed Income	\$ 722,007	\$ 625,163
Equity securities	5,813,375	5,667,328
Mutual funds	131,092	138,302
Investment in Foundation for California Community Colleges Scholarship Endowment (FCCC/Osher)	<u>328,511</u>	<u>343,604</u>
Total	<u>\$ 6,994,985</u>	<u>\$ 6,774,397</u>

Foundation investment income consisted of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 180,515	\$ 135,890
Realized gain on investments	304,665	279,101
Unrealized gain on investments	<u>(170,739)</u>	<u>709,388</u>
Total	<u>\$ 314,441</u>	<u>\$ 1,124,379</u>

3. RECEIVABLES

District receivables at June 30, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Federal	\$ 1,343,067	\$ 1,573,021
State	564,644	4,977,808
Local and other	<u>2,166,070</u>	<u>1,584,111</u>
	4,073,781	8,134,940
Less allowance for doubtful accounts	<u>(313,343)</u>	<u>(169,062)</u>
	<u>\$ 3,760,438</u>	<u>\$ 7,965,878</u>

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

4. CAPITAL ASSETS

Capital asset activity of the District consists of the following at June 30, 2015:

	Balance July 1, 2014	Additions and Transfers	Deductions and Transfers	Balance June 30, 2015
Non-depreciable:				
Land	\$ 590,992	\$ -	\$ -	\$ 590,992
Construction in progress	7,528,120	12,086,501	(76,386)	19,538,235
Depreciable:				
Buildings and improvements	177,666,975	215,539	76,386	177,958,900
Furniture and equipment	<u>16,282,056</u>	<u>1,954,118</u>	<u>-</u>	<u>18,236,174</u>
Total	<u>202,068,143</u>	<u>14,256,158</u>	<u>-</u>	<u>216,324,301</u>
Less accumulated depreciation:				
Buildings and improvements	43,819,089	5,800,560	-	49,619,649
Furniture and equipment	<u>10,185,800</u>	<u>1,252,725</u>	<u>-</u>	<u>11,438,525</u>
Total	<u>54,004,889</u>	<u>7,053,285</u>	<u>-</u>	<u>61,058,174</u>
Capital assets, net	<u>\$ 148,063,254</u>	<u>\$ 7,202,873</u>	<u>\$ -</u>	<u>\$ 155,266,127</u>

Capital asset activity of the District consists of the following at June 30, 2014:

	Balance July 1, 2013	Additions and Transfers	Deductions and Transfers	Balance June 30, 2014
Non-depreciable:				
Land	\$ 590,992	\$ -	\$ -	\$ 590,992
Construction in progress	11,494,449	6,353,157	(10,319,486)	7,528,120
Depreciable:				
Buildings and improvements	167,649,419	10,017,556	-	177,666,975
Furniture and equipment	<u>14,704,380</u>	<u>1,577,676</u>	<u>-</u>	<u>16,282,056</u>
Total	<u>194,439,240</u>	<u>17,948,389</u>	<u>(10,319,486)</u>	<u>202,068,143</u>
Less accumulated depreciation:				
Buildings and improvements	38,132,507	5,686,582	-	43,819,089
Furniture and equipment	<u>9,026,941</u>	<u>1,158,859</u>	<u>-</u>	<u>10,185,800</u>
Total	<u>47,159,448</u>	<u>6,845,441</u>	<u>-</u>	<u>54,004,889</u>
Capital assets, net	<u>\$ 147,279,792</u>	<u>\$ 11,102,948</u>	<u>\$ (10,319,486)</u>	<u>\$ 148,063,254</u>

5. UNEARNED REVENUE

Unearned revenue for the District at June 30, consisted of the following:

	2015	2014
Unearned tuition and student fees	\$ 1,153,907	\$ 648,389
Unearned grant revenue and other	<u>686,903</u>	<u>457,801</u>
Total unearned revenue	<u>\$ 1,840,810</u>	<u>\$ 1,106,190</u>

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2015

6. LONG-TERM LIABILITIES

A schedule of changes in long-term debt for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014 <u>as restated</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2015	Amounts Due Within <u>One Year</u>
General Obligation Bonds	\$ 123,486,974	\$ -	\$ 1,521,699	\$ 121,965,275	\$ 3,743,864
Premium on General Obligation Bonds	3,752,989	-	240,089	3,512,900	343,834
Accreted interest	22,782,230	5,980,187	1,398,301	27,364,116	159,081
Net pension liability	36,076,000	-	7,543,000	28,533,000	-
Other postemployment benefits	1,145,618	679,240	309,910	1,514,948	-
Early retirement incentive	<u>325,139</u>	<u>-</u>	<u>52,498</u>	<u>272,641</u>	<u>-</u>
	<u>\$ 187,568,950</u>	<u>\$ 6,659,427</u>	<u>\$ 11,065,497</u>	<u>\$ 183,162,880</u>	<u>\$ 4,246,779</u>

A schedule of changes in long-term debt for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2014	Amounts Due Within <u>One Year</u>
General Obligation Bonds	\$ 120,075,104	\$ 34,485,000	\$ 31,073,130	\$ 123,486,974	\$ 1,521,699
Premium on General Obligation Bonds	3,837,709	-	84,720	3,752,989	420,461
Accreted interest	18,551,298	5,962,981	1,732,049	22,782,230	1,291,308
Other postemployment benefits	948,619	533,250	336,251	1,145,618	-
Early retirement incentive	<u>379,386</u>	<u>-</u>	<u>54,247</u>	<u>325,139</u>	<u>-</u>
	<u>\$ 143,792,116</u>	<u>\$ 40,981,231</u>	<u>\$ 33,280,397</u>	<u>\$ 151,492,950</u>	<u>\$ 3,233,468</u>

General Obligation Bonds

2005 General Obligation Refunding Bonds

During March 2005, the District issued 2005 General Obligation Refunding Bonds in the amount of \$23,500,000 in current interest bonds and \$5,562,042 in capital appreciation bonds. The current interest bonds were partially refunded in 2014 and the remaining amount of current interest bonds mature from August 1, 2015 through August 1, 2022 with interest rates ranging from 4.50 to 4.75 percent. The capital appreciation bonds mature from August 1, 2005 through August 1, 2014 with interest yields ranging from 2.63 to 4.37 percent. Interest on capital appreciation bonds is compounded semiannually each year and payable only at maturity.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The annual payments required to repay the current interest portion of the 2005 General Obligation Refunding Bonds as of June 30, 2015, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,015,000	\$ 548,576	\$ 2,563,576
2017	-	457,900	457,900
2018	-	457,900	457,900
2019	-	457,900	457,900
2020	-	457,900	457,900
2021-2023	<u>9,640,000</u>	<u>2,285,154</u>	<u>11,925,154</u>
	<u>\$ 11,655,000</u>	<u>\$ 4,665,330</u>	<u>\$ 16,320,330</u>

2002 General Obligation Bonds, Series B

During June 2006, the District issued the 2002 General Obligation Bonds, Series B in the amount of \$32,815,000 of current interest bonds and \$2,180,518 of capital appreciation bonds. The current interest bonds were partially refunded in 2014 and the remaining current interest bonds mature from June 1, 2017 through December 1, 2031, with interest rates ranging from 4.10 to 5.00 percent. The capital appreciation bonds mature from June 1, 2008 through June 1, 2016 with interest yields ranging from 3.86 to 4.47 percent. Interest on capital appreciation bonds is compounded semiannually each year and is payable only at maturity.

The annual payments required to amortize the current interest 2002 General Obligation Bonds, Series B outstanding as of June 30, 2015, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 865,870	\$ 865,870
2017	570,000	865,870	1,435,870
2018	-	842,500	842,500
2019	-	842,500	842,500
2020	-	842,500	842,500
2021-2025	-	4,212,500	4,212,500
2026-2030	13,140,000	3,267,000	16,407,000
2031-2032	<u>3,710,000</u>	<u>185,500</u>	<u>3,895,500</u>
	<u>\$ 17,420,000</u>	<u>\$ 11,924,240</u>	<u>\$ 29,344,240</u>

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The annual payments required to amortize the capital appreciation 2002 General Obligation Bonds, Series B outstanding as of June 30, 2015, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	<u>\$ 328,864</u>	<u>\$ 181,136</u>	<u>\$ 510,000</u>

2002 General Obligation Bonds, Series C

During June 2009, the District issued the 2002 General Obligation Bonds, Series C in the amount of \$12,597,888 of capital appreciation bonds. The bonds mature beginning on August 1, 2023 through August 1, 2033, with interest yields ranging from 6.13 to 11.50 percent. Interest is compounded semiannually each year and is payable only at maturity.

The annual payments required to amortize the Capital Appreciation 2002 General Obligation Bonds, Series C outstanding as of June 30, 2015, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023-2025	\$ 622,564	\$ 4,385,420	\$ 5,007,984
2026-2030	4,074,667	13,001,265	17,075,932
2031-2034	<u>7,900,657</u>	<u>11,595,347</u>	<u>19,496,004</u>
	<u>\$ 12,597,888</u>	<u>\$ 28,982,032</u>	<u>\$ 41,579,920</u>

2002 General Obligation Bonds, Series D

During September 2009, the District issued the 2002 General Obligation Bonds, Series D in the amount of \$35,106,469 of capital appreciation bonds and \$13,298,610 of convertible capital appreciation bonds. The capital appreciation bonds were partially refunded in 2014 and the remaining bonds mature beginning on August 1, 2035 through August 1, 2049, with interest yields ranging from 7.42 to 11.50 percent. Interest is compounded semiannually and payable only at maturity. The convertible capital appreciation bonds mature through August 1, 2034 and convert to current interest bonds on August 1, 2022. Prior to the date of conversion, the convertible capital appreciation bonds accrete interest, compounded semiannually. Upon conversion, interest is payable semiannually and based upon the conversion value at an interest rate of 7.00 percent.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The annual payments required to amortize the 2002 General Obligation Bonds, Series D outstanding as of June 30, 2015, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023-2025	\$ -	\$ 5,643,750	\$ 5,643,750
2026-2030	-	11,287,500	11,287,500
2031-2035	13,298,610	27,387,790	40,686,400
2036-2040	12,517,598	83,183,282	95,700,880
2041-2045	11,087,411	116,862,826	127,950,237
2046-2050	<u>9,149,904</u>	<u>161,919,684</u>	<u>171,069,588</u>
	<u>\$ 46,053,523</u>	<u>\$ 406,284,832</u>	<u>\$ 452,338,355</u>

During January 2014, the District issued \$24,265,000 of federally tax-exempt 2014 General Obligation Refunding Bonds, Series A, with an effective interest rate of 3.45%. Proceeds were used to advance refund a portion of the outstanding 2005 General Obligation Refunding Bonds and portions of the 2002 General Obligation Bonds Series B and Series D and to pay the costs of issuing the 2014 General Obligation Refunding Bonds, Series A. The bonds mature August 1, 2014 through August 1, 2030. At June 30, 2015, \$20,391,556 of bonds outstanding are considered defeased.

The following is a schedule of the future payments for the 2014 General Obligation Refunding Bonds, Series A as of June 30, 2015:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 230,000	\$ 830,709	\$ 1,060,709
2017	380,000	820,279	1,200,279
2018	720,000	806,918	1,526,918
2019	1,165,000	776,059	1,941,059
2020	1,290,000	734,595	2,024,595
2021-2025	11,155,000	2,813,913	13,968,913
2026-2030	8,450,000	715,058	9,165,058
2031	<u>730,000</u>	<u>12,585</u>	<u>742,585</u>
	<u>\$ 24,120,000</u>	<u>\$ 7,510,116</u>	<u>\$ 31,630,116</u>

During January 2014, the District issued \$10,220,000 of 2014 General Obligation Refunding Bonds, Series B, with an effective interest rate of 2.55%. Proceeds were used to advance refund a portion of the outstanding 2005 General Obligation Refunding Bonds and to pay the costs of issuing the 2014 General Obligation Refunding Bonds, Series B. The bonds mature August 1, 2014 through August 1, 2019. At June 30, 2015, \$9,200,000 of bonds outstanding are considered defeased.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The following is a schedule of the future payments for the 2014 General Obligation Refunding Bonds, Series B as of June 30, 2015:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,170,000	\$ 248,498	\$ 1,418,498
2017	2,245,000	206,040	2,451,040
2018	2,420,000	147,709	2,567,709
2019	2,605,000	84,851	2,689,851
2020	<u>1,350,000</u>	<u>17,213</u>	<u>1,367,213</u>
	<u>\$ 9,790,000</u>	<u>\$ 704,311</u>	<u>\$ 10,494,311</u>

Early Retirement Incentive

During April 2009, the Board of Trustees adopted a resolution for the implementation of an Early Retirement Incentive for full-time faculty. A total of seven full-time faculty are participating. The District will pay benefits totaling \$600,551. Payment of \$52,498 and \$54,247 were made during the 2014-15 and 2013-14 fiscal year, respectively. The total remaining liability has been reflected in these financial statements. The net savings for the life of the plan is estimated at \$945,000.

7. PROPERTY TAXES

All property taxes are levied and collected by the Tax Assessors of the Counties of Monterey and San Benito and paid upon collection to the various taxing entities including the District. Secured taxes are levied on July 1 and are due in two installments on November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date for secured and unsecured property taxes is March 1 of the preceding fiscal year.

8. EMPLOYEE RETIREMENT SYSTEMS

The District's contributions to California State Teachers' Retirement System (CalSTRS) for the fiscal years ending June 30, 2015, 2014, 2013, and 2012 were \$1,400,416, \$1,184,612, \$1,038,973 and \$1,071,196, respectively, and equal 100% of the required contributions for each year.

The District's contributions to California Public Employees' Retirement System (CalPERS) for the fiscal years ending June 30, 2015, 2014, 2013, and 2012 were \$1,172,101, \$1,503,880, \$1,385,797, and \$1,325,842, respectively, and equal 100% of the required contributions for each year.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

9. NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

General Information about the State Teachers' Retirement Plan

Plan Description

Teaching-certified employees of the District are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report>.

Benefits Provided

The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

9. NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

General Information about the State Teachers' Retirement Plan (Continued)

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

Contributions

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members – Under CalSTRS 2% at 60, the member contribution rate was 8.15 percent of applicable member earnings for fiscal year 2014-15. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 8.15 percent of applicable member earnings for fiscal year 2014-15.

In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

Employers – 8.88 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2015

9. NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

General Information about the State Teachers' Retirement Plan (Continued)

Contributions (Continued)

The CalSTRS employer contribution rate increases effective for fiscal year 2014-15 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2014	8.25%	0.63%	8.88%
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The District contributed \$1,400,416 to the plan for the fiscal year ended June 30, 2015.

State – 5.954 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments starting October 1, 2013, at an additional contribution rate of 1.024 percent. As of June 30, 2014, the state contributed \$200.7 million of the \$267.6 million total amount for fiscal year 2013-14. As a result of AB 1469, the fourth quarterly payment of \$66.9 million was included in an increased first quarter payment of \$94 million for the 2014-15 fiscal year, which was transferred on July 1, 2014.

In accordance with AB 1469, the portion of the state appropriation under Education Code Section 22955(b) that is in addition to the 2.017 percent has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution will increase from 1.437 percent in 2014-15 to 4.311 percent in 2016-17. The increased contributions end as of fiscal year 2046-47.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

9. NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

General Information about the State Teachers' Retirement Plan (Continued)

Contributions (Continued)

The CalSTRS state contribution rates effective for fiscal year 2014-15 and beyond are summarized in the table below:

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2014	2.017%	1.437%	2.50%	5.954%
July 01, 2015	2.017%	2.874%	2.50%	7.391%
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017 to June 30, 2046	2.017%	4.311%*	2.50%	8.828%*
July 01, 2046 and thereafter	2.017%	*	2.50%	4.571%*

* The new legislation also gives the board limited authority to adjust state contribution rates from July 1, 2017, through June 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

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

At June 30, 2015, 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:

District's proportionate share of the net pension liability	\$ 18,385,000
State's proportionate share of the net pension liability associated with the District	<u>11,102,000</u>
Total	<u>\$ 29,487,000</u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2014, the District's proportion was 0.031 percent, which was an increase of zero from its proportion measured as of June 30, 2013.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

9. NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

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

For the year ended June 30, 2015, the District recognized pension expense of \$2,539,095 and revenue of \$947,000 for support provided by the State. At June 30, 2015, 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
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	4,527,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
Contributions made subsequent to measurement date	<u>1,400,416</u>	<u>-</u>
Total	<u>\$ 1,400,416</u>	<u>\$ 4,527,000</u>

\$1,400,416 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$ 1,131,750
2017	\$ 1,131,750
2018	\$ 1,131,750
2019	\$ 1,131,750

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2014. The STRP net pension liability as of June 30, 2013 and the STRP net pension liability as of June 30, 2014 are based on the June 30, 2013 actuarial valuation for the first year of implementation. As a result there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

9. NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

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

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2013
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

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. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis for more information.

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 as an input to the process. Based on the model from CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on 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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash / Liquidity	1%	0.00%

* 10-year geometric average

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

9. NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

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

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. 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 occur midyear. Based on those 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 the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	<u>\$ 28,658,000</u>	<u>\$ 18,385,000</u>	<u>\$ 9,820,000</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

10. NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B

General Information about the Public Employer's Retirement Fund B

Plan Description

The schools cost-sharing multiple-employer defined benefit pension plan Public Employer's Retirement Fund B (PERF B) is administered by the California Public Employees' Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2014.pdf>.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

10. NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B

General Information about the Public Employer’s Retirement Fund B (Continued)

Benefits Provided

The benefits for the defined benefit plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions

The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer’s benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to \$863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2015 were as follows:

Members – The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2014-15.

Employers – The employer contribution rate was 11.771 percent of applicable member earnings.

The District contributed \$1,172,101 to the plan for the fiscal year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$10,148,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2014, the District’s proportion was 0.089 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2013.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

10. NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

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

For the year ended June 30, 2015, the District recognized pension expense of \$951,952. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	\$ -	\$ -
Net differences between projected and actual earnings on investments	\$ -	\$ 3,487,000
Changes in proportion and differences between District contributions and proportionate share of contributions	\$ 156,750	\$ -
Contributions made subsequent to measurement date	<u>\$ 1,172,101</u>	<u>\$ -</u>
Total	<u>\$ 1,328,851</u>	<u>\$ 3,487,000</u>

\$1,172,101 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$ 819,500
2017	\$ 819,500
2018	\$ 819,500
2019	\$ 871,750

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2013. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

10. NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

Actuarial Methods and Assumptions

The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2013
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

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

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return</u>
Global Equity	47%	5.25%
Global Fixed Income	19%	0.99%
Inflation Insensitive	6%	0.45%
Private Equity	12%	6.83%
Real Estate	11%	4.50%
Infrastructure & Forestland	3%	4.50%
Liquidity	2%	(0.55)%

* 10-year geometric average

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

10. NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in the actuarial valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Plan and the District.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 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. 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.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

10. NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

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

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

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	<u>\$ 17,752,000</u>	<u>\$ 10,148,000</u>	<u>\$ 3,700,000</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

11. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, 9 and 10, the District provides medical, dental, and vision insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements through a single-employer, pay-as-you-go plan, which does not issue separate financial statements. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. The eligibility requirements for employees who are members of the California School Employees Association or International Union of Operating Engineers Stationary Local Number 39 are a minimum age of 60 and have a minimum of ten years of continuous service with the District. These employees receive one year of benefits for each two years with the District not to exceed five years. Additional age and service criteria may be required.

The eligibility requirement for members of the Hartnell College Faculty Association is a minimum age of 58 with ten years of full-time service. These employees receive one year of benefits for each two years with the District not to exceed seven years. Additional age and service criteria may be required.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

11. OTHER POSTEMPLOYMENT BENEFITS (Continued)

The eligibility requirements for managers, supervisors, and confidential employees are: to be of eligible age to retire from STRS or PERS, whichever is appropriate and have five years of full-time employment with the District. Benefits will be granted for a maximum of ten years. The District paid health benefits for all retirees, except medical coverage for members of the Hartnell College Faculty Association terminates at age 65. Retiree members of the Hartnell College Faculty Association receive lifetime District paid medical coverage for themselves and their dependents.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost, the amount actually contributed, and changes in the District's net OPEB obligation:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 683,828	\$ 533,200
Interest on net OPEB obligation	51,553	47,431
Adjustment to annual required contribution	<u>(56,141)</u>	<u>(47,381)</u>
Annual OPEB cost	679,240	533,250
Contributions made	<u>(309,910)</u>	<u>(336,251)</u>
Increase in net OPEB obligation	369,330	196,999
Net OPEB liability - beginning of year	<u>1,145,618</u>	<u>948,619</u>
Net OPEB liability - end of year	<u>\$ 1,514,948</u>	<u>\$ 1,145,618</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2015 and preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 634,508	46.90%	\$ 770,625
June 30, 2013	\$ 571,731	68.87%	\$ 948,619
June 30, 2014	\$ 533,250	63.06%	\$ 1,145,618
June 30, 2015	\$ 679,240	45.63%	\$ 1,514,948

As of November 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5.1 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$5.1 million. As of the last actuarial, the covered payroll (annual payroll of active employees covered by the Plan) was \$20.3 million, and the ratio of the UAAL to the covered payroll was 24.8 percent.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

11. OTHER POSTEMPLOYMENT BENEFITS (Continued)

The District provides benefits on a pay-as-you-go basis. Although the District has no segregated assets, the District does maintain a retiree benefit fund to assign resources for retiree health care costs. The retiree benefit fund's assigned fund balance was \$4,344,833 and \$4,320,788 at June 30, 2015 and 2014, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, included as Required Supplementary Information following this section, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the November 1, 2014 actuarial valuation for both the Retiree Health Plan and the Retiree Health Plan - Faculty Post-65, the entry age normal actuarial cost method was used to value the liability. The actuarial assumptions included a 4.5 percent investment rate of return which is based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. and an annual healthcare cost trend rate of 4.0 percent. The UAAL is being amortized as a level percent, closed 30 year period for the initial UAAL and an open 25 year period for any residual UAAL. The remaining equivalent amortization period at June 30, 2015, for the plans was approximately 24 years.

12. COMMITMENTS AND CONTINGENCIES

Contingent Liabilities

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received Federal and State funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect.

Construction Commitments

As of June 30, 2015 and 2014, the District has approximately \$16 million and \$20 million, respectively, in outstanding commitments on construction contracts.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

13. JOINT POWERS AGREEMENTS

Hartnell Community College District participates in public entity risk pool joint power agreements (JPAs), with Monterey County Schools Insurance Group (MCSIG), Bay Area Community College Districts (BACCD), School Association for Excess Risk (SAFER), the Statewide Association of Community Colleges (SWACC), Protected Insurance Program for Schools (PIPS), and the South Bay Regional Public Safety Training Consortium (SBRPSTC). Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There have been no significant reductions in insurance coverage from coverage in the prior year. The relationship between Hartnell Community College District and the JPAs is such that the JPAs are not component units of Hartnell Community College District for financial reporting purposes.

The JPAs are governed by boards consisting of a representative from each member district. The boards control the operations of the JPAs, including the selection of management and approval of operating budgets, independent of any influence by the member district beyond their representation on the governing board. MCSIG provides employee medical, dental and vision benefits, BACCD provides property and liability insurance, SAFER provides excess property and liability insurance, SWACC provides property and liability insurance, PIPS provides workers' compensation insurance and SBRPSTC provides education and training to public safety students. Hartnell Community College District pays a premium commensurate with the level of coverage requested.

Member districts share surpluses and deficits proportionate to their participation in the JPAs. The JPAs are independently accountable for their fiscal matters and maintain their own accounting records. Budgets are not subject to any approval other than that of the governing board.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

June 30, 2015

13. JOINT POWERS AGREEMENTS

Condensed financial information of the JPAs for the most recent year available is as follows:

	<u>MCSIG</u>		<u>BACCD</u>	
	<u>June 30, 2014</u>		<u>June 30, 2014</u>	
Total assets	\$	18,166,172	\$	7,092,820
Total liabilities	\$	8,692,592	\$	3,043,554
Net position	\$	9,473,580	\$	4,049,266
Total revenues	\$	53,637,707	\$	4,439,126
Total expenses	\$	47,175,228	\$	3,162,107
Change in net position	\$	6,462,479	\$	1,277,019
	<u>SWACC</u>		<u>PIPS</u>	
	<u>June 30, 2014</u>		<u>June 30, 2014</u>	
Total assets	\$	54,045,044	\$	101,635,390
Total liabilities	\$	23,536,002	\$	89,564,503
Net position	\$	30,509,042	\$	12,070,887
Total revenues	\$	10,230,783	\$	18,271,889
Total expenses	\$	10,964,706	\$	22,602,717
Change in net position	\$	(733,923)	\$	(4,330,828)
	<u>SAFER</u>		<u>SBRPSTC</u>	
	<u>June 30, 2014</u>		<u>June 30, 2014</u>	
Total assets	\$	6,441,498	\$	2,971,337
Total liabilities	\$	5,916,290	\$	1,550,685
Net position	\$	525,208	\$	1,420,652
Total revenues	\$	1,373,518	\$	8,971,619
Total expenses	\$	3,121,411	\$	9,080,103
Change in net position	\$	(1,747,893)	\$	(108,484)

REQUIRED SUPPLEMENTARY INFORMATION

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS

For the Year Ended June 30, 2015

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 1, 2009	\$ -	\$ 4,852,364	\$ 4,852,364	0.0%	\$16,251,014	29.86%
October 1, 2010	\$ -	\$ 4,922,642	\$ 4,922,642	0.0%	\$20,923,926	23.53%
November 1, 2012	\$ -	\$ 4,930,939	\$ 4,930,939	0.0%	\$20,877,941	23.62%
November 1, 2014	\$ -	\$ 5,050,547	\$ 5,050,547	0.0%	\$20,341,285	24.83%

See independent auditor's report on required supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY

For the Year Ended June 30, 2015

State Teacher's Retirement Plan
Last 10 Fiscal Years

	<u>2015</u>
District's proportion of the net pension liability	0.031%
District's proportionate share of the net pension liability	\$ 18,385,000
State's proportionate share of the net pension liability associated with the District	<u>11,102,000</u>
Total net pension liability	<u>\$ 29,487,000</u>
District's covered-employee payroll	\$ 14,013,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.20%
Plan fiduciary net position as a percentage of the total pension liability	76.52%

The amounts presented for each fiscal year were determined as of the yearend that occurred one year prior.

All years prior to 2015 are not available.

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
(Continued)
For the Year Ended June 30, 2015

Public Employers Retirement Fund B
Last 10 Fiscal Years

	<u>2015</u>
District's proportion of the net pension liability	0.089%
District's proportionate share of the net pension liability	\$ 10,148,000
District's covered-employee payroll	\$ 9,384,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	108.14%
Plan fiduciary net position as a percentage of the total pension liability	83.38%

The amounts presented for each fiscal year were determined as of the yearend that occurred one year prior.

All years prior to 2015 are not available.

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

For the Year Ended June 30, 2015

State Teachers' Retirement Plan
Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 1,400,416
Contributions in relation to the contractually required contribution	\$ 1,400,416
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 15,770,000
Contributions as a percentage of covered-employee payroll	8.88%
All years prior to 2015 are not available.	

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
(Continued)
For the Year Ended June 30, 2015

Public Employers Retirement Fund B
Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 1,172,101
Contributions in relation to the contractually required contribution	\$ 1,172,101
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 9,958,000
Contributions as a percentage of covered-employee payroll	11.77%
All years prior to 2015 are not available.	

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULE

A - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets. Although the plan has no segregated assets, the District does maintain a retiree benefit fund to assign resources for retiree health care costs. The fund's assigned fund balance was \$4,344,833 at June 30, 2015.

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

The Schedule of the District's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

C - Schedule of the District's Contributions

The Schedule of District Contributions is presented to illustrate the District's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D - Changes of Benefit Terms

There are no changes in benefit terms reported in the Required Supplementary Information.

E - Changes of Assumptions

There are no changes in assumptions reported in the Required Supplementary Information.

SUPPLEMENTARY INFORMATION

HARTNELL COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2015

Hartnell Community College District was established in 1949 and serves communities both Monterey and San Benito counties. The District currently operates one college.

The Governing Board and District Administration for the fiscal year ended June 30, 2015 were composed of the following members:

BOARD OF TRUSTEES

<u>Members</u>	<u>Office</u>	<u>Term Expires</u>
Elia Gonzalez-Castro	President	2015
Erica Padilla-Chavez	Vice President	2017
Candi DePauw	Member	2017
Patricia Donahue	Member	2015
William Freeman	Member	2015
Demetrio Pruneda	Member	2015
Ray Montemayor	Member	2017
Hector Moya	Student Trustee, Hartnell College	2016

DISTRICT ADMINISTRATION

Dr. Willard Clark Lewallen
Superintendent/President

Matthew Coombs
Vice President of Information and Technology Resources

Jackie Cruz
Executive Director of Advancement

Dr. Romero Jalomo
Vice President of Student Affairs

Dr. Lori Kildal
Vice President for Academic Affairs

Stephen Garcia
Interim Vice President of Administrative Services

Terri Pyer
Associate Vice President for Human Resources

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2015

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>		
<i>Direct Programs:</i>		
Student Financial Aid Cluster:		
Federal Supplemental Educational Opportunity Program (FSEOG)	84.007	\$ 167,895
Federal Work Study (FWS)	84.033	164,129
Federal Pell Grants (PELL)	84.063	11,291,642
Financial Aid Admin Allowance	84.063	<u>16,275</u>
Subtotal Financial Aid Cluster		<u>11,639,941</u>
TRIO - Student Support Services Program	84.042A	209,877
Migrant Ed - High School Equivalency Program	84.141N	516,183
Child Care Access Access Grant	84.335A	100,137
Title V Cluster:		
<i>Direct Programs</i>		
Title V - Strengthening the Pipeline to Baccalaureate and Graduate STEM program	84.031C	1,254,939
Title V - STEM Regional Community College-to-University Success Program (CUSP)	84.031C	1,092,537
Title V - STEM	84.031S	276,927
<i>Passed through Gavilan Joint Community College District:</i>		
Streamlined Career Transfer Pathways	84.031	<u>257,125</u>
Subtotal Title V Cluster		<u>2,881,528</u>
<i>Passed through California Community Colleges Chancellor's Office:</i>		
Perkins IV Cluster:		
Carl D. Perkins Career and Technical Education (CTE) Act CTE - Title I, Part C (Perkins IV)	84.048	254,503
Career Technical Education Transitions (CTE Transitions)	84.048A	<u>43,269</u>
Subtotal Perkins IV Cluster		<u>297,772</u>
Total U.S. Department of Education		<u>15,645,438</u>

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
(Continued)
For the Year Ended June 30, 2015

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>		
Foster Care Cluster:		
<i>Passed through California Community Colleges Chancellor's Office:</i>		
Foster and Kinship Care Education Program- Title IV-E	93.658	\$ 85,841
<i>Passed through County of Monterey, Department of Social and Employee Services:</i>		
Foster Care- Title IV-E (DSES)	93.658	<u>441,417</u>
Subtotal Foster Care Cluster		<u>527,258</u>
 <i>Passed through University of California, Santa Cruz:</i>		
National Institute of Health	93.375	5,588
<i>Passed through California Community College Chancellor's Office:</i>		
Temporary Assistance for Needy Families (TANF)	93.558	54,811
<i>Passed through Yosemite Community College District:</i>		
Child Development Training Consortium	93.575	<u>12,250</u>
Total U.S. Department of Health and Human Services		<u>599,907</u>
 <u>U.S. Department of Agriculture</u>		
<i>Passed through California Department of Education:</i>		
Forest Reserve Funds	10.665	3,809
<i>Passed through University of California, Santa Cruz:</i>		
Higher Education Challenge (USDA-HEC)	10.217	8,019
<i>Direct Program:</i>		
National Institute of Food and Agriculture	10.223	<u>89,614</u>
Total U.S. Department of Agriculture		<u>101,442</u>
 <u>Department of National Aeronautics & Space Administration</u>		
<i>Direct Program:</i>		
Science, Engineering, Mathematics and Aerospace Academy	43.000	<u>201,616</u>

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
For the Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of National and Community Service</u>		
<i>Direct Program:</i>		
National Service Award for Scholarships	94.006	\$ 8,025
<u>U.S. Department of Veterans Affairs</u>		
<i>Direct Program:</i>		
Veterans Educational Assistance	64.027	<u>1,778</u>
<u>Research & Development Cluster</u>		
<u>U.S. National Science Foundation</u>		
<i>Direct Program:</i>		
Advanced Technological Education	47.076	\$ 78,030
STEM Scholarship Program	47.076	170,953
<i>Passed through Cal Poly Corporation at CSU San Luis Obispo:</i>		
NSF COINS	47.076	15,285
<i>Pass through University Corporation at CSU Monterey Bay:</i>		
Academic Integrity Management	47.076	<u>55,307</u>
Total Research & Development Cluster		<u>319,575</u>
Total Federal Programs		<u>\$ 16,877,781</u>

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2015

	<u>Program Revenues</u>				<u>Total Program Expenditures</u>
	<u>Cash Received</u>	<u>Accounts Receivable</u>	<u>Unearned Revenue / Accounts Payable</u>	<u>Total</u>	
AB-86	\$ 14,592	\$ 18,253	\$ -	\$ 32,845	\$ 32,845
Basic Skills	259,855	-	95,947	163,908	163,908
Block Grants	1,082,374	-	-	1,082,374	1,082,374
Cal Grants	884,483	-	1,097	883,386	883,386
CalWORKs	218,997	-	-	218,997	218,997
Career Technical Regional Occupation Partner #6	86,132	-	-	86,132	86,132
CARE	100,376	-	4,243	96,133	96,133
Child Care and Development Childcare Tax Bailout	35,537	-	-	35,537	35,537
California State Preschool	474,309	-	-	474,309	474,309
Deputy Sector Navigator	183,897	48,822	-	232,719	232,719
Disabled Students Services (DSPS)	496,766	-	-	496,766	496,766
Doing What Matters	18,671	12,395	-	31,066	31,066
Equal Employment Opportunity and Services (EOPS)	49,996	-	9,028	40,968	40,968
Economic Opportunity Programs and Services (EOPS)	594,506	-	-	594,506	594,506
Faculty and Staff Development	8,145	-	5,324	2,821	2,821
First 5 Contract	48,205	27,986	-	76,191	76,191
Foster & Kinship Care Education	56,642	52,610	-	109,252	109,252
Industry Driven Regional Collaborative Media	-	-	-	-	-
Lottery- Proposition 20	138,686	96,330	-	235,016	235,016
Mathematics-Engineering-Science- Achievement (MESA)	30,663	20,200	363	50,500	50,500
Nursing Assessment, Remediation, & Retention	57,000	-	-	57,000	57,000
Nursing Enrollment Growth	129,587	-	-	129,587	129,587
OSHPD - Song Brown	-	22,720	-	22,720	22,720
Student Equity	463,776	-	420,741	43,035	43,035
Student Financial Aid Administration (SFAA)	332,665	-	-	332,665	332,665
Student Success	1,299,563	-	116,405	1,183,158	1,183,158
Transition Aged Foster Youth	2,418	3,537	-	5,955	5,955
Youth Empowerment Strategies	5,586	16,975	-	22,561	22,561

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT

Annual Attendance as of June 30, 2015

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2014 only)			
1. Noncredit	3	-	3
2. Credit	695	-	695
B. Summer Intersession (Summer 2015) - Prior to July 1, 2015)			
1. Noncredit	-	-	-
2. Credit	12	-	12
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
a. Weekly Census Contact Hours	5,067	-	5,067
b. Daily Census Contact Hours	257	-	257
2. Actual Hours of Attendance Procedure Courses			
a. Noncredit	11	-	11
b. Credit	551	-	551
3. Independent Study/Work Experience			
a. Weekly Census Contact Hours	442	-	442
b. Daily Census Contact Hours	156	-	156
c. Noncredit Independent Study/ Distance Education Courses	-	-	-
D. Total FTES	<u>7,194</u>	<u>-</u>	<u>7,194</u>
Supplemental Information:			
E. In-Service Training Courses (FTES)	280	-	280
H. Basic Skills Courses and Immigrant Education			
a. Noncredit	15	-	15
b. Credit	463	-	463
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	-	-	-
Centers FTES			
a. Noncredit	2	-	2
b. Credit	411	-	411

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

There were no adjustments proposed to any funds of the District.

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION

For the Year Ended June 30, 2015

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) 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	\$ 12,483,464	\$ -	\$ 12,483,464	\$ 12,577,863	\$ -	\$ 12,577,863
Other	1300	-	-	-	-	-	-
Total instructional salaries		<u>12,483,464</u>	<u>-</u>	<u>12,483,464</u>	<u>12,577,863</u>	<u>-</u>	<u>12,577,863</u>
Non-instructional salaries:							
Contract or regular	1200	-	-	-	2,911,491	-	2,911,491
Other	1400	-	-	-	-	-	-
Total non-instructional salaries		<u>-</u>	<u>-</u>	<u>-</u>	<u>2,911,491</u>	<u>-</u>	<u>2,911,491</u>
Total academic salaries		<u>12,483,464</u>	<u>-</u>	<u>12,483,464</u>	<u>15,489,354</u>	<u>-</u>	<u>15,489,354</u>
<u>Classified Salaries</u>							
Non-instructional salaries:							
Regular status	2100	-	-	-	6,627,010	-	6,627,010
Other	2300	-	-	-	-	-	-
Total non-instructional salaries		<u>-</u>	<u>-</u>	<u>-</u>	<u>6,627,010</u>	<u>-</u>	<u>6,627,010</u>
Instructional aides:							
Regular status	2200	445,142	-	445,142	445,142	-	445,142
Other	2400	-	-	-	-	-	-
Total instructional aides		<u>445,142</u>	<u>-</u>	<u>445,142</u>	<u>445,142</u>	<u>-</u>	<u>445,142</u>
Total classified salaries		<u>445,142</u>	<u>-</u>	<u>445,142</u>	<u>7,072,152</u>	<u>-</u>	<u>7,072,152</u>
Employee benefits	3000	3,367,972	-	3,367,972	7,759,444	-	7,759,444
Supplies and materials	4000	-	-	-	275,970	-	275,970
Other operating expenses	5000	475,911	-	475,911	4,540,207	-	4,540,207
Equipment replacement	6420	-	-	-	83,913	-	83,913
Total expenditures prior to exclusions		<u>\$ 16,772,489</u>	<u>\$ -</u>	<u>\$ 16,772,489</u>	<u>\$ 35,221,040</u>	<u>\$ -</u>	<u>\$ 35,221,040</u>

(Continued)

HARTNELL COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION

(Continued)

For the Year Ended June 30, 2015

Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) 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	\$ 125,187	\$ -	\$ 125,187	\$ -	\$ -
Student health services above amount collected	6441	-	-	-	-	-
Student transportation	6491	-	-	-	-	-
Noninstructional staff-retirees' benefits and retirement incentives	6740	-	-	-	184,724	184,724
Objects to exclude:						
Rents and leases	5060	-	-	-	-	-
Lottery expenditures		-	-	-	-	-
Academic salaries	1000	-	-	-	-	-
Classified salaries	2000	-	-	-	-	-
Employee benefits	3000	-	-	-	-	-
Supplies and materials:	4000					
Software	4100	-	-	-	-	-
Books, magazines and periodicals	4200	-	-	-	-	-
Instructional supplies and materials	4300	-	-	-	-	-
Noninstructional supplies and materials	4400	-	-	-	-	-
Total supplies and materials		-	-	-	-	-
Other operating expenses and services	5000	-	-	-	883,399	883,399
Capital outlay	6000	-	-	-	-	-
Library books	6300	-	-	-	69,536	69,536
Equipment:	6400					
Equipment - additional	6410	-	-	-	-	-
Equipment - replacement	6420	-	-	-	14,377	14,377
Total equipment		-	-	-	14,377	-
Total capital outlay		-	-	-	83,913	-
Other outgo	7000	-	-	-	1,367,215	1,367,215
Total exclusions		\$ 125,187	\$ -	\$ 125,187	\$ 2,519,251	\$ 2,519,251
Total for ECS 84362, 50% Law		\$ 16,647,302	\$ -	\$ 16,647,302	\$ 32,701,789	\$ 32,701,789
Percent of CEE (instructional salary cost /Total CEE)		50.91 %		50.91 %	100%	-
50% of current expense of education					\$ 16,350,895	\$ 16,350,895

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT

PROP 30 EPA EXPENDITURE REPORT

For the Year Ended June 30, 2015

EPA Proceeds:

\$ 6,743,380

<u>Activity Classification</u>	<u>Activity Code (0100-5900)</u>	<u>Salaries and Benefits (1000-3000)</u>	<u>Operating Expenses (4000-5000)</u>	<u>Capital Outlay (6000)</u>	<u>Total</u>
Total EPA	<u>-</u>	<u>\$ 6,743,380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,743,380</u>

See accompanying note to supplementary information.

HARTNELL COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Expenditure of Federal Awards

The accompanying Schedule of Expenditure of Federal Awards includes the Federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133.

B - Schedule of State Financial Awards

The accompanying Schedule of State Financial Awards includes State grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented to comply with reporting requirements of the California Community College State Chancellor's Office.

C - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students 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 are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

D - Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the CCFS-311 to the audited financial statements.

E - Reconciliation of ECS 84362 (50 Percent Law) Calculation

This schedule provides the information necessary to reconcile the 50 Percent Law Calculation reported on the CCFS-311 to the audited data.

F - Prop 30 EPA Expenditure Report

This schedule provides information about the District's EPA proceeds and summaries how the EPA proceeds were spent.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Hartnell Community College District
Salinas, California

Report on Compliance with State Laws and Regulations

We have audited the compliance of Hartnell Community College District with the types of compliance requirements described in Section 400 of the California State Chancellor's Office's *California Community College District Audit Manual (CDAM)* that are applicable to community colleges in the State of California for the year ended June 30, 2015:

- Salaries of Classroom Instructors (50 Percent Law)
- Apportionment for Instructional Service Agreements/Contracts
- State General Apportionment Funding System
- Residency Determination for Credit Courses
- Students Actively Enrolled
- Concurrent Enrollment of K 12 Students in Community College Credit Courses
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Student Fees - Health Fees and Use of Health Fee Funds
- Proposition 39 Clean Energy
- Intersession Extension Program
- Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D State Bond Funded Projects
- Proposition 30 Education Protection Account Funds

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with State laws and regulations of Hartnell Community College District. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Hartnell Community College 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. However, our audit does not provide a legal determination of Hartnell Community College District's compliance with those requirements.

Unmodified Opinion with State Laws and Regulations

In our opinion, Hartnell Community College District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2015. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Hartnell Community College District had not complied with the state laws and regulations.

Purpose of this Report

This report is intended solely to describe the scope of our testing of compliance and the results of that testing based on requirements of the *Contracted District Audit Manual*. Accordingly, this report is not suitable for any other purpose.


Crowe Horwath LLP

Sacramento, California
December 8, 2015

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

Board of Trustees
Hartnell Community College District
Salinas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the discretely presented component unit and fiduciary activities of Hartnell Community College District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Hartnell Community College District's basic financial statements, and have issued our report thereon dated December 8, 2015. The financial statements of Hartnell College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instance of reportable noncompliance associated with Hartnell College Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hartnell Community College 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 Hartnell Community College District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hartnell Community College District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe Horwath LLP

Sacramento, California
December 8, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees
Hartnell Community College District
Salinas, California

Report on Compliance for Each Major Federal Program

We have audited Hartnell Community College District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hartnell Community College District's major federal programs for the year ended June 30, 2015. Hartnell Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hartnell Community College District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hartnell Community College 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 Hartnell Community College District's compliance.

Basis for Qualified Opinion on the Migrant Ed - High School Equivalency Program (HEP)

As described in the accompanying schedule of findings and questioned costs, Hartnell Community College District did not comply with requirements regarding CFDA 84.141N Migrant Ed - HEP as described in Finding 2015-001 for eligibility. Compliance with such requirements is necessary, in our opinion, for Hartnell Community College District to comply with the requirements applicable to that program.

Qualified opinion on the Migrant Ed - High School Equivalency Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Hartnell Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Migrant Ed - HEP for the year ended June 30, 2015.

Unmodified Opinion on Student Financial Aid Cluster

In our opinion, Hartnell Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Student Financial Aid Cluster for the year ended June 30, 2015.

Other Matters

Hartnell Community College District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. Hartnell Community College District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of Hartnell Community College 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 Hartnell Community College District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hartnell Community College District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a material weakness.

Hartnell Community College District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. Hartnell Community College District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of this Report

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


Crowe Horwath LLP

Sacramento, California
December 8, 2015

FINDINGS AND RECOMMENDATIONS

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? X Yes _____ No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: Student Financial Aid Cluster - Unmodified
Migrant Ed - HEP - Qualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X Yes _____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007, 84.033, 84.063 84.141N	Student Financial Aid Cluster Migrant Ed - High School Equivalency Program (HEP)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 506,333

Auditee qualified as low-risk auditee? X Yes _____ No

STATE AWARDS

Type of auditors' report issued on compliance for state programs: Unmodified

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2015

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2015-001 MATERIAL WEAKNESS - MIGRANT ED HIGH SCHOOL EQUIVALENCY (HEP) PROGRAM

Criteria

Under section 418A(c)(1) of the Higher Education Act and 34 CFR 206.3(a) and (c), an individual is eligible to participate in a College Assistance Migrant Program if he or she is determined by the grantee to need the academic and supporting services and financial assistance provided by the project in order to complete an academic program of study.

Condition

The District does not have a written policy nor standard guidelines in place for determining the eligibility of students for admission to the Migrant Ed HEP program according to their level of need. Additionally, the District's determination of eligibility for students is not reviewed by a second individual.

Effect

The District was not able to demonstrate compliance with the eligibility requirements for students receiving services in the Migrant Ed HEP program.

Cause

Internal controls are not designed and implemented to ensure compliance with the eligibility requirements of the Migrant Ed HEP program.

Fiscal Impact

All costs of the program are questionable. Total expenditures for the year ended June 30, 2015 were \$516,183.

Recommendation

The District should develop and implement written procedures to ensure compliance with Migrant Ed HEP admissions requirements.

Corrective Action Plan

The Hartnell College High School Equivalency Program (HEP) employs a structured enrollment model consisting of preliminary screening for eligibility, as well as a structured admissions process. Before students are admitted, they must undergo: a preliminary phone screening for eligibility, pre-assessment and submission of pertinent employment verification documents, participation in an orientation, individual interview with a member of our HEP staff, completion of a written assignment, and finally an admissions decisions committee meeting to vet all admissions decisions. In order to document the multiple checks and balances in determining eligibility prior to admissions, initials and/or signature criteria has been added to the following documents: student interest list, pre-assessment proctoring, pre-assessment evaluation, written assignment evaluation, and interview facilitation. In addition, a formal written policy to determine financial need has been developed and included in section 6 of the program's policies and procedures.

HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

HARTNELL COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2015

Finding/Recommendation	Current Status	District Explanation If Not Fully Implemented
<p>2014-001</p> <p>Sample selections were made from the detailed listing of students receiving EOPS support and services for the 2013-2014 academic year.</p> <p>Out of 25 students selected for testing, 19 did not have documentation signed by the appropriate college staff and one of the 19 did not have a student educational plan.</p> <p>The District should develop and implement procedures to ensure compliance with EOPS recordkeeping requirements.</p>	<p>Implemented.</p>	