



**PASADENA AREA  
COMMUNITY COLLEGE  
DISTRICT**

---

**ANNUAL FINANCIAL REPORT**

---

**JUNE 30, 2018**

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2018

---

### ***FINANCIAL SECTION***

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements - Primary Government	
Statement of Net Position	15
Statement of Revenues, Expenses, and Changes in Net Position	16
Statement of Cash Flows	17
Fiduciary Funds	
Statement of Net Position	19
Statement of Changes in Net Position	20
Notes to Financial Statements	21

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Schedule of Changes in the District's Net OPEB Liability and Related Ratios	70
Schedule of OPEB Investment Returns	71
Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program	72
Schedule of the District's Proportionate Share of the Net Pension Liability	73
Schedule of District Contributions for Pensions	75
Note to Required Supplementary Information	76

### ***SUPPLEMENTARY INFORMATION***

District Organization	78
Schedule of Expenditures of Federal Awards	79
Schedule of Expenditures of State Awards	81
Schedule of Workload Measures for State General Apportionment Annual (Actual)	
Attendance	82
Reconciliation of <i>Education Code</i> Section 84362 (50 Percent Law) Calculation	83
Reconciliation of Annual Financial and Budget Report (CCFS-311) With Audited Financial Statements	86
Proposition 30 Education Protection Account (EPA) Expenditure Report	87
Reconciliation of Governmental Funds to the Statement of Net Position	88
Note to Supplementary Information	90

### ***INDEPENDENT AUDITOR'S REPORTS***

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>	93
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	95
Report on State Compliance	97

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

Summary of Auditor's Results	100
Financial Statement Findings and Recommendations	101
Federal Awards Findings and Questioned Costs	102
State Awards Findings and Questioned Costs	103
Summary Schedule of Prior Audit Findings	104

---

---

***FINANCIAL SECTION***

---

---



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

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Pasadena Area Community College District  
Pasadena, California

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2017-2018 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

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

## Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 14, and other required supplementary schedules on pages 70 through 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Vanneth Tuma, Day & Co, LLP*

Rancho Cucamonga, California  
December 7, 2018



## ***INTRODUCTION***

This section of our annual financial report offers a narrative overview and analysis of the financial activities of the Pasadena Area Community College District (the District) for the year ended June 30, 2018. This analysis is presented with comparative information from the years ended June 30, 2018 and June 30, 2017 to highlight changes from one year to the next. This section of our report should be read in conjunction with the basic financial statements, including footnotes. Responsibility for the completeness and accuracy of this information rests with the District management.

## ***USING THIS ANNUAL REPORT***

As required by generally accepted accounting principles, the annual report consists of three basic financial statements that provide information on the District's activities as a whole; the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Pasadena Area Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities*. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The government-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Position is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Position focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. This approach is intended to summarize and simplify the user's analysis of the cost of various District services to student and the public. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

As recommended by the California Community Colleges Chancellor's Office, the District follows the Business-Type Activity (BTA) model for financial statement reporting purposes.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

---

### *FINANCIAL HIGHLIGHTS*

- The District ended the year with a General Unrestricted Fund Balance of \$27,426,294 which consists of primarily of one-time carry over funds. It is important to note that the carryover balance is one-time in nature and not a recurring funding source. A portion of the carryover balance is set aside to meet the State Chancellor's Office recommended reserve level of five percent (\$7.9 million). The balance above the five percent reserve level has been earmarked to address or partially address certain unfunded cost escalation in the coming years. Examples of potential uses include projected increases in the District's PERS and STRS obligation, (\$18.4 million unfunded increase in expenses from fiscal year 2018-2019 through fiscal year 2021-2022), and unfunded cost escalations for furniture, fixtures, and equipment related to upcoming U Building replacement project (\$12 to \$15 million).
- Salaries and benefits of the Academic, Classified, and Administrative salaries of District employees represent 90.64 percent of the total General Unrestricted Fund Expenditures. This represents a decrease of .58 percent from the prior year percentage of 91.22 percent.
- As a condition of the passage of the District's \$150 million General Obligation Bond, Measure P, a Citizens' Oversight Committee was formed under Proposition 39 requirements and met quarterly. The meetings are generally held at 6:00 pm every quarter during the months of January, April, August, and October at Pasadena City College and are open to the public.
- The District provided Federal, State, and local student financial aid including fee waivers to qualifying District Students in the amount of approximately \$60 million. This represents an increase of \$3.8 million from the 2016-2017 fiscal year. This aid is provided through grants, loans, scholarships, and tuition reductions from the Federal Government, State Chancellor's Office, and local funding.
- The District's primary funding source is apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the 2017-2018 fiscal year, total reported FTES were 23,988. There is no increase in FTES from the prior year funded FTES.
- As of June 30, 2018, the District reported a liability for its proportionate share of Net Pension Liability (NPL) that reflected a reduction for State pension support provided to the District. This is a result of implementation of new GASB Statements No. 68 and No. 71, which requires that the District report its proportionate share of the net pension liabilities, pension expense, and deferred inflow and outflow of resources. As a result of implementing GASB Statement No. 68, the District's aggregate net pension obligation as of June 30, 2018 was \$161,675,950.
- During the 2017-2018 fiscal year, the District established a Governmental Accounting Standards Board (GASB) Statement No. 74 irrevocable trust with Public Agency Retirement Services (PARS) to fund other postemployment benefit (OPEB) obligations. Through June 30, 2018, the District has contributed \$10 million to this trust. The District will budget annual contributions to continue funding the trust in an effort to meet future obligations.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

---

- During the 2017-2018 fiscal year, the District established an irrevocable pension stability trust with Public Agency Retirement Services (PARS) to assist in stabilizing the District's funding for increasing future State Teachers' Retirement System (STRS) and Public Employees' Retirement System (PERS) liabilities. Through June 30, 2018, the District has contributed \$4.0 million to this trust.
- The District's Change in Net Position for the current fiscal year is a decrease of \$7.8 million. This is primarily due to the contributions to the irrevocable trusts which is reflected as an operating expense. The irrevocable trust funds are owned by the District but is not reflected in the District's combined financials statements, but reflected in Trust and Agency Statement of Fiduciary Net Position.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

### THE DISTRICT AS A WHOLE

#### Net Position

Condensed financial information is as follows:

**Table 1**

	(as restated)			
	2018	2017	\$ Change	% Change
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and investments	\$ 93,155,005	\$ 105,976,102	\$(12,821,097)	-12.1%
Accounts receivable	16,015,197	11,833,557	4,181,640	35.3%
Other current assets	1,447,989	1,144,120	303,869	26.6%
Total Current Assets	<u>110,618,191</u>	<u>118,953,779</u>	<u>(8,335,588)</u>	<u>-7.0%</u>
Capital Assets (net)	<u>195,910,341</u>	<u>203,731,535</u>	<u>(7,821,194)</u>	<u>-3.8%</u>
Total Assets	<u>306,528,532</u>	<u>322,685,314</u>	<u>(16,156,782)</u>	<u>-5.0%</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	2,418,364	2,984,987	(566,623)	-19.0%
Deferred outflows of resources related to pensions	<u>48,076,824</u>	<u>30,106,758</u>	<u>17,970,066</u>	<u>59.7%</u>
Total Deferred Outflows of Resources	<u>50,495,188</u>	<u>33,091,745</u>	<u>17,403,443</u>	<u>52.6%</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 357,023,720</u></u>	<u><u>\$ 355,777,059</u></u>	<u><u>\$ 1,246,661</u></u>	<u><u>54.7%</u></u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and interest payable	\$ 21,610,535	\$ 13,378,704	\$ 8,231,831	61.5%
Unearned revenue	14,974,059	21,400,948	(6,426,889)	-30.0%
Current portion of long-term obligations	<u>6,067,912</u>	<u>7,819,979</u>	<u>(1,752,067)</u>	<u>-22.4%</u>
Total Current Liabilities	<u>42,652,506</u>	<u>42,599,631</u>	<u>52,875</u>	<u>0.1%</u>
Long-Term Obligations	<u>272,126,648</u>	<u>267,967,669</u>	<u>4,158,979</u>	<u>1.6%</u>
Total Liabilities	<u>314,779,154</u>	<u>310,567,300</u>	<u>4,211,854</u>	<u>1.4%</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to OPEB	3,130,519	-	3,130,519	100.0%
Deferred inflows of resources related to pensions	<u>16,267,266</u>	<u>14,595,540</u>	<u>1,671,726</u>	<u>11.5%</u>
Total Deferred Inflows of Resources	<u>19,397,785</u>	<u>14,595,540</u>	<u>4,802,245</u>	<u>32.9%</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u><u>334,176,939</u></u>	<u><u>325,162,840</u></u>	<u><u>9,014,099</u></u>	<u><u>2.8%</u></u>
<b>NET POSITION</b>				
Net investment in capital assets	117,434,258	119,296,497	(1,862,239)	-1.6%
Restricted	18,878,847	15,093,588	3,785,259	25.1%
Unrestricted	<u>(113,466,324)</u>	<u>(103,775,866)</u>	<u>(9,690,458)</u>	<u>9.3%</u>
Total Net Position	<u>22,846,781</u>	<u>30,614,219</u>	<u>(7,767,438)</u>	<u>-25.4%</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 357,023,720</u></u>	<u><u>\$ 355,777,059</u></u>	<u><u>\$ 1,246,661</u></u>	<u><u>0.4%</u></u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

This schedule has been prepared from the District's Statement of Net Position, which is presented on an accrual basis of accounting whereby capital assets are capitalized, depreciated, and all liabilities of the District are recognized.

Capital Assets, net of depreciation is stated at the net historical value (original cost) of land, building, construction in progress, and equipment less accumulated depreciation.

Cash and investments decreased by \$12.8 million due primarily to the contributions made to the irrevocable trusts for the Aggregate Net Other Postemployment Benefit (OPEB) Liability and the STRS/PERS stabilization fund \$14.0 million, offset by increase in apportionment revenue.

Long-term obligations consist primarily of the general obligation bond issue, Public Agency Retirement Services (PARS) - Supplementary Employee Retirement Plan (SERP), Aggregate Net Other Postemployment Benefits (OPEB) Liability, Compensated Absences, Capital Leases, and Aggregate Net Pension Liability (NPL) for CalSTRS and CalPERS. Long-term obligations increased by \$4.0 million primarily due to increases in the NPL, offset by current year payments against the other long-term obligations.

### Operating Results for the Year

The results of this year's operations for the District as a whole are reported in the *Statement of Revenues, Expenses, and Changes in Net Position* on page 16.

**Table 2**

	2018	2017	\$ Change	% Change
<b>Operating Revenues</b>				
Tuition and fees	\$ 27,629,175	\$ 24,725,696	\$ 2,903,479	11.7%
Grants and contracts	43,338,928	32,739,111	10,599,817	32.4%
Auxiliary sales and other charges	4,098,989	4,824,203	(725,214)	-15.0%
Total Operating Revenues	<u>75,067,092</u>	<u>62,289,010</u>	<u>12,778,082</u>	<u>20.5%</u>
<b>Operating Expenses</b>				
Salaries and benefits	158,481,432	147,490,342	10,991,090	7.5%
Supplies, maintenance and other operating	46,459,304	33,772,236	12,687,068	37.6%
Student aid	44,238,794	40,697,491	3,541,303	8.7%
Depreciation	9,911,344	8,817,147	1,094,197	12.4%
Total Operating Expenses	<u>259,090,874</u>	<u>230,777,216</u>	<u>28,313,658</u>	<u>12.3%</u>
Loss on Operations	(184,023,782)	(168,488,206)	(15,535,576)	9.2%
<b>Nonoperating Revenues (Expenses)</b>				
State apportionments	90,655,361	87,248,239	3,407,122	3.9%
Property taxes	40,920,499	42,513,374	(1,592,875)	-3.7%
Other State revenues	6,821,037	7,589,209	(768,172)	-10.1%
Financial aid grants	43,420,112	39,885,494	3,534,618	8.9%
Net interest expense	(3,422,078)	(2,616,749)	(805,329)	30.8%
Other nonoperating revenues (expenses)	(3,305,366)	(296,829)	(3,008,537)	1013.6%
Total Nonoperating Revenue (Expenses)	<u>175,089,565</u>	<u>174,322,738</u>	<u>766,827</u>	<u>0.4%</u>
<b>Other Revenues</b>	<u>1,166,779</u>	<u>400,533</u>	<u>766,246</u>	<u>191.3%</u>
Net Increase(Decrease) in Net Position	<u>\$ (7,767,438)</u>	<u>\$ 6,235,065</u>	<u>\$ (14,002,503)</u>	<u>-224.6%</u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

---

The operating revenue for the District is specifically defined as revenues from users of the colleges' facilities and programs. Excluded from the operating revenues are the components of the primary source of District funding. The District's primary revenue sources are local property taxes, student enrollment fees, and State apportionment, which increased in fiscal year 2017-2018. Property taxes levied and received from property within the District's boundaries decreased slightly during the year. These revenue sources are not from the direct users of the educational services (Students), they are considered Nonoperating Revenues. As a result, the operating loss of \$184 million is balanced by the other funding sources. Total District expenditures were more than the total District revenues by \$7.8 million for the year ended June 30, 2018.

Auxiliary Sales consists primarily of bookstore revenues. In May 2018, Follett starting managing the bookstore. Profits and commission from the bookstore are used for student government and club activities.

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

During 2017-2018, the District's interest income was \$1.5 million and interest expense was \$4.9 million. Interest income is primarily derived from cash held in the Los Angeles County Treasury. Interest income has increased approximately \$0.5 million from the 2016-2017 fiscal year due to an increase in the interest rate yield. An increase of \$1.3 million in interest expense for the year is the result of increases in the accrued interest payable and increased amortization of the deferred charges associated with the issuance of refunding general obligation bonds.

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

**Table 3**

Year ended June 30, 2018:

	Salaries & Employee Benefits	Supplies, Material, and Other Expenses and Services	Student Aid	Depreciation	Total
Instructional activities	\$ 90,241,758	\$ 6,113,519	\$ -	\$ -	\$ 96,355,277
Academic support	13,314,518	2,084,749	-	-	15,399,267
Student services	24,181,017	13,246,548	-	-	37,427,565
Plant operations and maintenance	7,108,714	4,177,725	-	-	11,286,439
Instructional support services	18,307,957	9,615,339	-	-	27,923,296
Community services and economic development	892,743	301,413	-	-	1,194,156
Ancillary services and auxiliary operations	4,434,725	4,406,730	-	-	8,841,455
Student aid	-	-	44,238,794	-	44,238,794
Physical property and related acquisitions	-	6,513,281	-	-	6,513,281
Unallocated depreciation	-	-	-	9,911,344	9,911,344
Total	<u>\$ 158,481,432</u>	<u>\$ 46,459,304</u>	<u>\$ 44,238,794</u>	<u>\$ 9,911,344</u>	<u>\$ 259,090,874</u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

---

### Changes in Cash Position

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.

**Table 4**

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Cash Provided by (Used in)			
Operating activities	\$(186,016,748)	\$(126,534,786)	\$ (59,481,962)
Noncapital financing activities	173,425,661	147,961,952	25,463,709
Capital financing activities	(1,690,058)	(10,517,729)	8,827,671
Investing activities	<u>1,460,048</u>	<u>554,669</u>	<u>905,379</u>
Net Increase (Decrease) in Cash	(12,821,097)	11,464,106	(24,285,203)
Cash, Beginning of Year	<u>105,976,102</u>	<u>94,511,996</u>	<u>11,464,106</u>
Cash, End of Year	<u>\$ 93,155,005</u>	<u>\$ 105,976,102</u>	<u>\$ (12,821,097)</u>

The primary operating receipts are student tuition and fees and auxiliary sales. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff. Noncapital financing activities include receipts from State apportionment and property taxes. Capital financing activities relate to the spending of Measure P bond proceeds.

While State apportionment and property taxes are the primary source of noncapital related revenue, the GASB accounting standards require that this source of revenue is nonoperating as it comes from the general resources of the State and not from the primary users of the District's programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

---

### *CAPITAL ASSET AND DEBT ADMINISTRATION*

#### **Capital Assets**

Capital assets, net of depreciation, are the historical value (original cost) of land, buildings, construction in progress, and equipment less accumulated depreciation. Gross capital assets increased approximately \$1.8 million due to the projects funded by the general obligation bond. Current year depreciation expense was \$9.9 million for a net reduction in our capital asset balance of \$7.8 million, net of disposals.

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

**Table 5**

	Balance			Balance
	July 1, 2017	Additions	Deletions	June 30, 2018
Land and construction in progress	\$ 12,218,094	\$ 1,674,989	\$(3,217,096)	\$ 10,675,987
Buildings and improvements	303,635,475	3,318,940	(632,026)	306,322,389
Equipment	28,625,535	1,338,442	(691,144)	29,272,833
Subtotal	344,479,104	6,332,371	(4,540,266)	346,271,209
Accumulated depreciation	(140,747,569)	(9,911,344)	298,045	(150,360,868)
	<u>\$203,731,535</u>	<u>\$(3,578,973)</u>	<u>\$(4,242,221)</u>	<u>\$ 195,910,341</u>

#### **Obligations**

Long-term obligations consist primarily of general obligation bonds, aggregate net pension obligation, and the aggregate net other postemployment benefits (OPEB) liability. At June 30, 2018, the District had \$85.8 million in debt outstanding due to the issuance of general obligation bonds. At June 30, 2018, the District's aggregate net pension obligation was \$161.7 million. Note 12 to the financial statements provides additional information on the District's aggregate net pension obligation.

The District is also obligated to employees of the District for vacation, load banking benefits, and supplemental retirement income payments.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

---

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

**Table 6**

	(as restated)			
	Balance			Balance
	July 1, 2017	Additions	Deletions	June 30, 2018
General obligation bonds	\$ 90,116,519	\$ -	\$ (4,271,833)	\$ 85,844,686
Aggregate net OPEB liability	32,526,442	3,292,335	(14,975,078)	20,843,699
Aggregate net pension obligation	140,959,749	20,716,201	-	161,675,950
Other liabilities	12,184,938	-	(2,354,713)	9,830,225
Total Long-Term Debt	<u>\$ 275,787,648</u>	<u>\$ 24,008,536</u>	<u>\$ (21,601,624)</u>	<u>\$ 278,194,560</u>

Amount due within one year \$ 6,067,912

### ***BUDGETARY HIGHLIGHTS***

Over the course of the year, the District revises its budget to provide for unanticipated changes in revenues and expenditures. The Board of Trustees adopted the final amendment to the budget for the 2017-2018 fiscal year on June 6, 2018.

The District's final revised budget for the unrestricted General Fund anticipated that expenditures would exceed revenues by \$1.6 million. The actual results for the year showed revenues exceeded expenditures by \$923,488.

### ***ECONOMIC FACTORS AFFECTING THE FUTURE OF PASADENA AREA COMMUNITY COLLEGE DISTRICT***

The financial strength and stability of the District is closely aligned with California's economic position as State apportionments, State Mandated Cost Reimbursements, and property taxes allocated to the District represent approximately 84.4 percent of the unrestricted General Fund. The passage of Proposition 30 and the improving State economy Proposition 98 funds increased, but it remains far from what is needed in terms of funding and stability. As a result, it continues to be prudent for the District to maintain diligent practice of funding strong reserves to manage economic challenges and future uncertainties.

The 2017-2018 State budget included additional funding for education with an emphasis on student access and success. California Community Colleges received an increase in base funding and a Cost of Living adjustment (COLA). Base funding increased approximately \$4.1 million (3.3 percent) and a Cost of Living Adjustment (COLA) of 1.56 percent. District full-time equivalent students (FTES) remained stable at 23,988, the same as fiscal year 2016-2017 FTES.

No State revenue shortfall and no year-end deficit factor were applied to the District's State revenue sources in 2017-2018.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

---

The passage of Proposition 30 by California voters in November 2012 increased State revenues and benefited California community colleges for the immediate future by preventing additional funding reductions, increasing funding for student access and eliminating State cash deferrals. The measure temporarily increases personal income tax on annual earnings over \$250,000 for seven years and sales and use tax by ¼ percent for four years. Eleven percent of these temporary tax revenues will be allocated to community colleges and eighty-nine percent to K-12 schools. Funds cannot be spent on administrative salaries, but provides local school governing board's discretion to decide, in open meetings and subject to annual audit, how funds are to be spent. Our board approved \$18,297,234 to be spent on instructional salaries in fiscal year 2017-2018.

The Proposition 30 ¼ percent sales and use tax ended in December 2016. However, in November 2016, California voters approved Proposition 55, which extended the increases in personal income tax on annual earnings over \$250,000 that were implemented under Proposition 30 until 2030.

Voters also approved Proposition 51, which authorizes \$9 billion in general obligation bonds for K-14 public school facilities. The District has a \$60 million project that is eligible for State bond funding to replace our U Building. The District is in the process of generating the architectural plans for the new U Building.

The Student Centered Funding Formula was established in the 2018-2019 budget bill and details can be found in Assembly Bill 1809. The prior funding formula was based predominantly on enrollment while the new funding formula has a three-pronged focus: Access, Equity, and Success. The new funding formula still supports Access through enrollment-based funding, but also supports Equity and Success through additional allocations. There is a three year phase in approach and a three year hold harmless provision. Though budget simulation has shown that the District funding will not be reduced by the new formula there is significant volatility and uncertainty which makes projection for future income difficult.

There are currently no other known facts, decisions, or conditions that will have a significant effect on the financial position (net position) or results of operations (revenues, expenses, and changes in net position) of the District.

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

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact Pasadena Area Community College District, 1570 East Colorado Boulevard, Pasadena, CA 91106 or call (626) 585-7170.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

### ASSETS

#### Current Assets

Cash and cash equivalents	\$ 2,189,165
Investments	90,965,840
Accounts receivable	12,494,841
Student receivable	3,520,356
Prepaid expenses	1,447,989

<b>Total Current Assets</b>	<u>110,618,191</u>
-----------------------------	--------------------

#### Noncurrent Assets

Nondepreciable capital assets	10,675,987
Depreciable capital assets, net of depreciation	185,234,354

<b>Total Noncurrent Assets</b>	<u>195,910,341</u>
--------------------------------	--------------------

<b>TOTAL ASSETS</b>	<u>306,528,532</u>
---------------------	--------------------

### DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refunding	2,418,364
Deferred outflows of resources related to pensions	48,076,824

<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>50,495,188</u>
---	-------------------

### LIABILITIES

#### Current Liabilities

Accounts payable	19,932,830
Accrued interest payable	1,677,705
Unearned revenue	14,974,059
Compensated absences - current portion	1,461,911
Bonds payable - current portion	3,685,000
Lease obligations - current portion	98,620
Other long-term liabilities - current portion	822,381

<b>Total Current Liabilities</b>	<u>42,652,506</u>
----------------------------------	-------------------

#### Noncurrent Liabilities

Compensated absences payable - noncurrent portion	1,102,846
Claims liability	5,163,245
Bonds payable - noncurrent portion	82,159,686
Aggregate net other postemployment benefits (OPEB) liability	20,843,699
Aggregate net pension obligation	161,675,950
Other long-term liabilities - noncurrent portion	1,181,222

<b>Total Noncurrent Liabilities</b>	<u>272,126,648</u>
-------------------------------------	--------------------

<b>TOTAL LIABILITIES</b>	<u>314,779,154</u>
--------------------------	--------------------

### DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to OPEB	3,130,519
Deferred inflows of resources related to pensions	16,267,266

<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>19,397,785</u>
--	-------------------

### NET POSITION

Net investment in capital assets	117,434,258
Restricted for:	
Debt service	5,002,594
Capital projects	10,503,437
Educational programs	3,011,340
Other activities	361,476
Unrestricted	(113,466,324)

<b>TOTAL NET POSITION</b>	<u>\$ 22,846,781</u>
---------------------------	----------------------

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

---

### OPERATING REVENUES

Student Tuition and Fees	\$ 42,930,302
Less: Scholarship discount and allowance	(15,301,127)
Net tuition and fees	<u>27,629,175</u>
Grants and Contracts, Noncapital	
Federal	8,058,899
State	34,372,725
Local	<u>907,304</u>
Grants and contracts, noncapital	<u>43,338,928</u>
Auxiliary Enterprise Sales and Charges	
Bookstore	<u>4,098,989</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>75,067,092</b></u>

### OPERATING EXPENSES

Salaries	112,880,990
Employee benefits	45,600,442
Supplies, materials, and other operating expenses and services	38,586,643
Student financial aid	44,238,794
Equipment, maintenance, and repairs	7,872,661
Depreciation	<u>9,911,344</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>259,090,874</b></u>

### OPERATING LOSS

(184,023,782)

### NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	90,655,361
Local property taxes, levied for general purposes	33,777,348
Taxes levied for other specific purposes	7,143,151
Federal financial aid grants, noncapital	37,935,630
State financial aid grants, noncapital	5,484,482
State taxes and other revenues	6,821,037
Investment income	1,460,048
Interest expense on capital related debt	(4,887,730)
Investment income on capital asset-related debt	5,604
Transfer to fiduciary fund	(4,000,000)
Other nonoperating revenue (expenses)	<u>694,634</u>

### TOTAL NONOPERATING REVENUES (EXPENSES)

175,089,565

### LOSS BEFORE OTHER REVENUES

(8,934,217)

### OTHER REVENUES

State revenues, capital	490,682
Local revenues, capital	<u>676,097</u>

### TOTAL OTHER REVENUES

1,166,779

### CHANGE IN NET POSITION

(7,767,438)

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

30,614,219

### NET POSITION, END OF YEAR

\$ 22,846,781

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

---

### CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 24,641,035
Federal, state, and local grants and contracts, noncapital	33,416,228
Payments to or on behalf of employees	(161,121,208)
Payments to vendors for supplies and services	(43,631,680)
Payments to students for scholarships and grants	(43,420,112)
Auxiliary enterprise sales and charges	4,098,989
<b>Net Cash Flows From Operating Activities</b>	<b><u>(186,016,748)</u></b>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	87,827,993
Noncapital grants and contracts	43,420,112
Property taxes - nondebt related	33,777,348
State taxes and other apportionments	5,733,594
Other nonoperating	2,666,614
<b>Net Cash Flows From Noncapital Financing Activities</b>	<b><u>173,425,661</u></b>

### CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(1,598,068)
State revenue, capital projects	735,824
Local revenue, capital projects	676,097
Property taxes - related to capital debt	7,143,151
Principal paid on capital debt	(5,309,403)
Interest paid on capital debt	(3,343,263)
Interest received on capital asset-related debt	5,604
<b>Net Cash Flows From Capital Financing Activities</b>	<b><u>(1,690,058)</u></b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	<u>1,460,048</u>
------------------------------------	------------------

**NET CHANGE IN CASH AND CASH EQUIVALENTS** (12,821,097)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 105,976,102

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 93,155,005

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

---

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

Operating Loss	<u>\$ (184,023,782)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation expense	9,911,344
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows	
Receivables	(3,824,907)
Inventories	854,348
Prepaid expenses	60,569
Accounts payable and accrued liabilities	5,543,119
Unearned revenue	(9,085,933)
Claims payable	(28,338)
Compensated absences, load banking, and SERP	(1,288,805)
Deferred outflows of resources related to pensions	(17,970,066)
Deferred inflows of resources	4,802,245
Aggregate net pension obligation	20,716,201
Aggregate net OPEB liability	<u>(11,682,743)</u>
<b>Total Adjustments</b>	<u>(1,992,966)</u>
<b>Net Cash Flows From Operating Activities</b>	<u><u>\$ (186,016,748)</u></u>

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

Cash in banks	\$ 2,189,165
Investments	374,715
Cash in county treasury	<u>90,591,125</u>
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 93,155,005</u></u>

### NONCASH TRANSACTIONS

California College Promise Grant (BOG fee waivers)	\$ 15,301,127
On behalf payments for benefits	<u>4,800,729</u>
	<u><u>\$ 20,101,856</u></u>

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

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

	<b>Retiree OPEB Trust</b>	<b>Other Trust Funds</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 2,772,798
Investments	10,010,578	4,169,753
<b>Total Assets</b>	<u>10,010,578</u>	<u>6,942,551</u>
<b>NET POSITION</b>		
Restricted for postemployment benefits other than pensions	10,010,578	-
Reserved	-	4,004,231
Unreserved	-	2,938,320
<b>Total Net Position</b>	<u>\$ 10,010,578</u>	<u>\$ 6,942,551</u>

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

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

	<b>Retiree OPEB Trust</b>	<b>Other Trust Funds</b>
<b>ADDITIONS</b>		
District contributions	\$ 10,000,000	\$ -
Interest and investment income, net of fees	10,578	6,154
Net realized and unrealized gain	-	34,885
Local revenues	-	3,782,953
<b>Total Additions</b>	<u>10,010,578</u>	<u>3,823,992</u>
<b>DEDUCTIONS</b>		
Classified salaries	-	331,648
Employee benefits	-	35,548
Books and supplies	-	670,943
Services and operating expenditures	-	2,387,548
<b>Total Deductions</b>	<u>-</u>	<u>3,425,687</u>
<b>OTHER FINANCING SOURCES</b>		
Transfers from primary government	-	4,000,000
<b>Change in Net Position</b>	<u>10,010,578</u>	<u>4,398,305</u>
<b>Net Position - Beginning</b>	<u>-</u>	<u>2,544,246</u>
<b>Net Position - Ending</b>	<u>\$ 10,010,578</u>	<u>\$ 6,942,551</u>

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### ***NOTE 1 - ORGANIZATION***

Pasadena Area Community College District (the District) was established in 1967 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and two education centers located within Pasadena and Rosemead. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

### ***NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

#### **Financial Reporting Entity**

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

The District has analyzed the financial and accountability relationship with the Pasadena City College Foundation (the Foundation) in conjunction with the GASB Statement No. 61 criteria. The Foundation is a separate, not for profit organization, and the District does provide and receive direct benefits to and from the Foundation. However, it has been determined that all criteria under GASB Statement No. 61 have not been met to require inclusion of the Foundation's financial statements in the District's annual report. Information on the Foundation may be requested through the Pasadena City College Foundation.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive government-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

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

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. The business-type activities model followed by the District requires the following components of the District's financial statements:

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

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the Statement of Cash Flows.

### **Investments**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2018 and 2017, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

### **Accounts Receivable**

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District does not record an allowance for uncollectible accounts because collectability of the receivables from such sources is probable. When receivables are determined to be uncollectible, a direct write-off is recorded.

### **Prepaid Expenses**

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### **Capital Assets and Depreciation**

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

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and building and land improvements, 50 years; site improvements, 20 years; equipment, 5 to 15 years.

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

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

### **Debt Issuance Costs, Premiums, and Discounts**

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

### **Deferred Charge on Refunding**

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

### **Deferred Outflows/Inflows of Resources**

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### **Pensions**

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

### **Postemployment Benefits Other Than Pensions (OPEB)**

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

### **Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. The current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year-end that have not yet been paid within the fund from which the employees who have accumulated the leave are paid. The District also participates in "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period. The liability for this benefit is reported on the government-wide financial statements.

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

### **Unearned Revenue**

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Noncurrent Liabilities

Noncurrent liabilities include bonds payable, compensated absences, early retirement plans, claims payable, capital lease obligations, the aggregate net OPEB liability, and aggregate net pension liability with maturities greater than one year.

### Net Position

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The government-wide financial statements report \$18,878,847 of restricted net position.

### Operating Revenues and Expenses

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

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

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

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

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

### State Apportionments

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

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

The voters of the District passed a General Obligation Bond in 2002 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected as noted above and remitted to the District when collected.

### Scholarships, Discounts, and Allowances

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

### Federal Financial Assistance Programs

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Estimates

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

### Interfund Activity

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

### Change in Accounting Principles

In June 2015, the GASB issued Statement No. 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 GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

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

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

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

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

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

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

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

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

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

### **New Accounting Pronouncements**

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

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

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

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

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

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

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

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

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

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### NOTE 3 - DEPOSITS AND INVESTMENTS

#### Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

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

#### General Authorizations

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

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

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

**Authorized Under Debt Agreements**

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

**Summary of Deposits and Investments**

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

Primary government	\$ 93,155,005
Fiduciary Funds	16,953,129
Total Deposits and Investments	<u>\$ 110,108,134</u>
Cash on hand and in banks	\$ 4,763,587
Cash in revolving	198,376
Investments	105,146,171
Total Deposits and Investments	<u>\$ 110,108,134</u>

**Interest Rate Risk and Credit Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by primarily investing in the Los Angeles County Investment Pool and mutual funds. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>	<u>Average Credit Rating</u>
Los Angeles County Investment Pool	\$ 89,377,566	609	AA+
Mutual Funds	14,240,449	N/A	N/A
Equities	208,348	N/A	N/A
Corporate Bonds	99,001	461	BBB+
Real Estate Investment Trusts	7,248	N/A	N/A
Total	<u>\$ 103,932,612</u>		

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

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

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$6,425,685 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### **NOTE 4 - FAIR VALUE MEASUREMENTS**

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

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

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

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

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

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

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

Investment Type	Fair Value	Fair Value Measurements Using		Uncategorized
		Level 1 Inputs	Level 2 Inputs	
Los Angeles County Investment Pool	\$ 89,377,566	\$ -	\$ -	\$ 89,377,566
Mutual Funds	14,240,449	14,240,449	-	-
Equities	208,348	208,348	-	-
Corporate Bonds	99,001	99,001	-	-
Real Estate Investment Trusts	7,248	-	7,248	-
Total	\$ 103,932,612	\$ 14,547,798	\$ 7,248	\$ 89,377,566

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

**NOTE 5 - ACCOUNTS RECEIVABLE**

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

The accounts receivable are as follows:

Federal Government		<u>Primary Government</u>
Categorical aid		\$ 3,546,748
State Government		
Apportionment		2,827,368
Categorical aid		1,412,285
Lottery		1,087,443
State construction		1,407,871
PCC Foundation		220,847
Other sources		1,992,279
Total		<u>\$12,494,841</u>
Student receivables		<u>\$ 3,520,356</u>

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

**NOTE 6 - CAPITAL ASSETS**

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Capital Assets Not Being Depreciated				
Land	\$ 10,396,408	\$ -	\$ -	\$ 10,396,408
Construction in progress	1,821,686	1,674,989	3,217,096	279,579
Total Capital Assets Not Being Depreciated	<u>12,218,094</u>	<u>1,674,989</u>	<u>3,217,096</u>	<u>10,675,987</u>
Capital Assets Being Depreciated				
Buildings and improvements	280,701,224	3,217,096	632,026	283,286,294
Site improvements	22,934,251	101,844	-	23,036,095
Equipment	28,625,535	1,338,442	691,144	29,272,833
Total Capital Assets Being Depreciated	<u>332,261,010</u>	<u>4,657,382</u>	<u>1,323,170</u>	<u>335,595,222</u>
Total Capital Assets	<u>344,479,104</u>	<u>6,332,371</u>	<u>4,540,266</u>	<u>346,271,209</u>
Less Accumulated Depreciation				
Buildings and improvements	108,551,064	6,797,104	-	115,348,168
Land improvements	13,739,240	941,475	-	14,680,715
Equipment	18,457,265	2,172,765	298,045	20,331,985
Total Accumulated Depreciation	<u>140,747,569</u>	<u>9,911,344</u>	<u>298,045</u>	<u>150,360,868</u>
Net Capital Assets	<u>\$ 203,731,535</u>	<u>\$ (3,578,973)</u>	<u>\$ 4,242,221</u>	<u>\$ 195,910,341</u>

Depreciation expense for the year was \$9,911,344.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

***NOTE 7 - ACCOUNTS PAYABLE***

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

	<u>Primary Government</u>
Accrued payroll and benefits	\$ 10,446,480
Construction	492,082
Vendor payables	<u>8,994,268</u>
Total	<u>\$ 19,932,830</u>

***NOTE 8 - UNEARNED REVENUE***

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

	<u>Primary Government</u>
State categorical aid	\$ 6,816,620
Prop 39 Clean Energy	1,653,013
Restricted lottery	703,375
Enrollment fees	634,046
Other local	<u>5,167,005</u>
Total	<u>\$ 14,974,059</u>

***NOTE 9 - INTERFUND TRANSACTIONS***

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

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2018, there were no amounts owed between the primary government and the fiduciary funds.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

### Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2018 fiscal year, the amount transferred to the fiduciary funds from the primary government amounted to \$4,000,000.

### NOTE 10 - LONG-TERM OBLIGATIONS

#### Summary

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

	(as restated)			Balance June 30, 2018	Due in One Year
	Balance July 1, 2017	Additions	Deductions		
<b>Bonds Payable</b>					
General obligation bonds, 2009 Series D	\$ 5,265,000	\$ -	\$ 1,670,000	\$ 3,595,000	\$ 1,755,000
Unamortized debt premium	220,757	-	73,588	147,169	-
General obligation bonds, 2009 Series E	25,295,000	-	-	25,295,000	-
Unamortized debt premium	1,184,885	-	69,699	1,115,186	-
General obligation bonds, Refunding					
Bonds 2014	16,680,000	-	1,355,000	15,325,000	1,425,000
Unamortized debt premium	1,956,514	-	200,668	1,755,846	-
General obligation bonds, Refunding					
Bonds 2016	33,390,000	-	490,000	32,900,000	505,000
Unamortized debt premium	6,124,363	-	412,878	5,711,485	-
<b>Total Bonds Payable</b>	<b>90,116,519</b>	<b>-</b>	<b>4,271,833</b>	<b>85,844,686</b>	<b>3,685,000</b>
<b>Other Liabilities</b>					
Compensated absences	2,889,550	-	324,793	2,564,757	1,461,911
Load banking	764,027	-	141,631	622,396	-
Claims liability	5,191,583	-	28,338	5,163,245	-
Capital leases	1,136,190	-	1,037,570	98,620	98,620
Supplemental employee retirement plan (SERP)	2,203,588	-	822,381	1,381,207	822,381
Aggregate net other postemployment benefits (OPEB) liability	32,526,442	3,292,335	14,975,078	20,843,699	-
Aggregate net pension obligation	140,959,749	20,716,201	-	161,675,950	-
<b>Total Other Liabilities</b>	<b>185,671,129</b>	<b>24,008,536</b>	<b>17,329,791</b>	<b>192,349,874</b>	<b>2,382,912</b>
<b>Total Long-Term Obligations</b>	<b>\$ 275,787,648</b>	<b>\$ 24,008,536</b>	<b>\$ 21,601,624</b>	<b>\$ 278,194,560</b>	<b>\$ 6,067,912</b>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### **Description of Debt**

Payments on the general obligation bonds are made by the Bond Interest Redemption Fund with local property tax collections. The capital lease payments are made by the Other Debt Service Fund. The compensated absences and aggregate net pension liability are paid by the fund for which the employees' salaries are paid from. The District's General Fund makes payments for the aggregate net other postemployment liability, supplemental employee retirement incentive plan, and load banking obligations. The Internal Service fund makes payments for the claims liability.

### **Bonded Debt**

#### **2009 General Obligation Bonds**

During September 2009, the District issued the General Obligation Bonds, Series 2009D and 2009E in the amount of \$52,000,000. The bonds mature beginning on August 1, 2011 through August 1, 2034, with interest yields ranging from 3.00 to 6.65 percent. The bonds issued included \$25,295,000 of current interest Build America Bonds (Series 2009E Bonds) and \$26,705,000 of current interest bonds (Series 2009D Bonds). At June 30, 2018, the principal balance outstanding was \$28,890,000 and unamortized premium cost of \$1,262,355. Premium costs are amortized over the life of the bonds as a component of interest expense on the bonds.

The District has designated the Series 2009E Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the Stimulus Act), the interest on which is not excluded from gross income for Federal income tax purposes, but is exempt from State of California personal income taxes. The District expects to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable on such Series 2009E Bonds. The District is obligated to make all payments of principal and interest on the Series 2009E Bonds from the sources described in the official statement whether or not it receives cash subsidy payments pursuant to the Stimulus Act. Effective March 1, 2013, the subsidy percentage was reduced by 8.7 percent, to 26.3 percent as a result of sequestration by the Federal government. The sequestration percentage was again adjusted to 7.2 percent as of October 1, 2013, resulting in a subsidy of \$544,603 for the current year. As of June 30, 2018, the sequestration percentage remains at 7.2 percent.

The bonds are being used for the purposes of financing the repair, acquisition, construction, and equipping of certain District facilities, and to pay all legal, financial, and contingent costs in connection with the issuance of the bonds. The bonds are general obligations of the District payable solely from the proceeds of ad valorem property taxes. Interest with respect of the bonds accrues from the date of their delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2010.

#### **2014 General Obligation Refunding Bonds**

During April 2014, the District issued the \$16,980,000 2014 General Obligation Refunding Bonds, Series A. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

The bonds have a final maturity to occur on August 1, 2026, with interest rates from 2.00 to 5.00 percent. The net proceeds of \$19,812,097 (representing the principal amount of \$16,980,000 plus premium on issuance of \$2,832,097) from the issuance were used to advance refund a portion of the District's outstanding 2002 General Obligation Bonds, Series 2006B and pay the costs associated with the issuance of the refunding bonds. At June 30, 2018, the principal balance outstanding was \$15,325,000. Unamortized premium received on issuance of the bonds amounted to \$1,755,846 as of June 30, 2018.

### 2016 General Obligation Refunding Bonds

During May 2016, the District issued the 2016 General Obligation Refunding Bonds in the amount of \$33,995,000. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. The refunding resulted in an economic gain of \$7,157,913 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted to present value.

The bonds have a final maturity to occur on August 1, 2031, with interest rates from 2.00 to 5.00 percent. The net proceeds of \$40,771,030 (representing the principal amount of \$33,995,000 plus premium on issuance of \$6,776,030) from the issuance were used to advance refund a portion of the District's outstanding 2002 General Obligation Bonds, Series 2006B, advance a portion of the District's outstanding 2002 General Obligation Bonds, Series 2009D, and pay the costs associated with the issuance of the refunding bonds. At June 30, 2018, the principal balance outstanding was \$32,900,000. Unamortized premium received on issuance of the bonds amounted to \$5,711,485 as of June 30, 2018.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds	
				Outstanding July 1, 2017	Issued	Redeemed	Outstanding June 30, 2018
9/30/2009	8/1/2019	3.00%-5.00%	\$ 26,705,000	\$ 5,265,000	\$ -	\$ 1,670,000	\$ 3,595,000
9/30/2009	8/1/2034	6.50%-6.65%	25,295,000	25,295,000	-	-	25,295,000
4/2/2014	8/1/2026	2.00%-5.00%	16,980,000	16,680,000	-	1,355,000	15,325,000
5/12/2016	8/1/2031	2.00%-5.00%	33,995,000	33,390,000	-	490,000	32,900,000
				<u>\$ 80,630,000</u>	<u>\$ -</u>	<u>\$ 3,515,000</u>	<u>\$ 77,115,000</u>

The General Obligation Bonds, Series 2009D mature through 2020 as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2019	\$ 1,755,000	\$ 135,875	\$ 1,890,875
2020	1,840,000	46,000	1,886,000
Total	<u>\$ 3,595,000</u>	<u>\$ 181,875</u>	<u>\$ 3,776,875</u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

The General Obligation Bonds, Series 2009E mature through 2035 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ -	\$ 1,668,642	\$ 1,668,642
2020	-	1,668,642	1,668,642
2021	-	1,668,642	1,668,642
2022	-	1,668,642	1,668,642
2023	-	1,668,641	1,668,641
2024-2028	2,720,000	8,254,415	10,974,415
2029-2033	15,435,000	5,011,989	20,446,989
2034-2035	7,140,000	480,086	7,620,086
Total	<u>\$ 25,295,000</u>	<u>\$ 22,089,699</u>	<u>\$ 47,384,699</u>

The 2014 General Obligation Refunding Bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 1,425,000	\$ 685,775	\$ 2,110,775
2020	1,495,000	635,200	2,130,200
2021	1,525,000	582,125	2,107,125
2022	1,600,000	504,000	2,104,000
2023	1,680,000	422,000	2,102,000
2024-2027	7,600,000	783,000	8,383,000
Total	<u>\$ 15,325,000</u>	<u>\$ 3,612,100</u>	<u>\$ 18,937,100</u>

The 2016 General Obligation Refunding Bonds mature through 2032 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 505,000	\$ 1,456,700	\$ 1,961,700
2020	515,000	1,441,550	1,956,550
2021	2,180,000	1,420,950	3,600,950
2022	2,265,000	1,333,750	3,598,750
2023	2,360,000	1,243,150	3,603,150
2024-2028	13,315,000	4,324,500	17,639,500
2029-2032	11,760,000	1,187,600	12,947,600
Total	<u>\$ 32,900,000</u>	<u>\$ 12,408,200</u>	<u>\$ 45,308,200</u>

### Capital Leases

At June 30, 2018, the liability for capital leases was \$98,620. The leases will be paid off in 2019.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

**Compensated Absences**

At June 30, 2018, the liability for compensated absences was \$2,564,757.

**Early Retirement Incentive**

The District has entered into various Supplemental Employee Retirement Plan (SERP) to provide certain benefits to employees participating in the early retirement incentive programs. The District will pay \$1,381,207 on behalf of the retirees through 2020 in accordance with the following schedule:

Year Ending		
June 30,		
2019		\$ 822,381
2020		558,826
Total		<u>\$ 1,381,207</u>

**Load Banking**

At June 30, 2018, the liability for load banking was \$622,396.

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

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

<u>OPEB Plan</u>	<u>Aggregate Net OPEB Liability</u>	<u>Deferred Inflows of Resources</u>	<u>OPEB Expense</u>
District Plan	\$ 20,021,846	\$ 3,130,519	\$ 2,872,301
Medicare Premium Payment (MPP) Program	821,853	-	(51,047)
Total	<u>\$ 20,843,699</u>	<u>\$ 3,130,519</u>	<u>\$ 2,821,254</u>

The details of each plan are as follows:

**District Plan**

*Plan Administration*

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

Management of the plan is vested in the District management. Management of the trustee assets is vested with the Public Agency Retirement Services (PARS), Irrevocable Trust Management Services.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

*Plan Membership*

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	58
Active employees	<u>801</u>
	<u>859</u>

**Retiree Health Benefit OPEB Trust**

The Retiree Health Benefit OPEB Trust (the Trust) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by PARS as directed by the investment alternative choice selected by the District. The District retains the responsibility to oversee the management of the Trust, including the requirement that investments and assets held within the Trust continually adhere to the requirements of the California Government Code Section 53600.5 which specifies that the trustee's primary role is to preserve capital, to maintain investment liquidity, and to protect investment yield. As such, the District acts as the fiduciary of the Trust. The financial activity of the Trust has been discretely presented.

*Benefits Provided*

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

*Contributions*

The contribution requirements of Plan members and the District are established and may be amended by the District, the Faculty Association (FA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, FA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed \$11,373,478 to the Plan, of which \$1,373,478 was used for current premiums and \$10,000,000 was used to fund the District's OPEB Trust.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Investment

#### *Investment Policy*

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the District to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. Equities	24.5%
International Equities	10.5%
U.S. Investment Grade Bonds	42.0%
Inflation Protected Securities	15.0%
Real Estate Investment Trust	8.0%

#### *Rate of Return*

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 0.11 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Net OPEB Liability of the District

The District's net OPEB liability of \$20,021,846 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2018, were as follows:

Total OPEB liability	\$ 30,032,424
Plan fiduciary net position	<u>(10,010,578)</u>
District's net OPEB liability	<u>\$ 20,021,846</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>33.33%</u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### *Actuarial Assumptions*

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	5.25 percent, net of investment expense, including inflation
Healthcare cost trend rates	8.00 percent for 2017-182018, decreasing to 5.00% for 2020-21 and after
Retirees' share of benefit-related costs	CFT employees hired on or after July 1, 2011 pay any premium increases after year of retirement; all other eligible retiree groups are paid for entirely by the District.

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

Mortality rates were based on the RP-2014 Employee and Health Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100 percent of scale MP-2016 for years 2014 through 2029, 50 percent of MP-2016 for years 2030 through 2049, and 20 percent of MP-2016 for 2050 and thereafter.

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, (see the discussion of the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equities	12.08%
International Equities	5.40%
U.S. Investment Grade Bonds	3.70%
Inflation Protected Securities	3.16%
Real Estate Investment Trust	7.06%

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

*Discount Rate*

The discount rate used to measure the total OPEB liability was 5.25 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2017	\$ 31,653,542	\$ -	\$ 31,653,542
Service cost	2,102,668	-	2,102,668
Interest	1,189,667	-	1,189,667
Differences between expected and actual experience	(46,340)	-	(46,340)
Contributions - employer	-	11,373,478	(11,373,478)
Net investment income	-	10,578	(10,578)
Changes of assumptions or other inputs	(3,493,635)	-	(3,493,635)
Benefit payments	(1,373,478)	(1,373,478)	-
Net change in total OPEB liability	<u>(1,621,118)</u>	<u>10,010,578</u>	<u>(11,631,696)</u>
Balance at June 30, 2018	<u>\$ 30,032,424</u>	<u>\$ 10,010,578</u>	<u>\$ 20,021,846</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.60 percent in 2017 to 5.25 percent in 2018.

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

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

Discount Rate	Net OPEB Liability
1% decrease (4.25%)	\$ 22,094,183
Current discount rate (5.25%)	20,021,846
1% increase (6.25%)	18,089,231

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### *Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

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

<u>Healthcare Cost Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (7.00%)	\$ 17,215,396
Current healthcare cost trend rate (8.00%)	20,021,846
1% increase (9.00%)	23,235,930

### **OPEB Expense and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$2,872,301. At June 30, 2018, the District reported deferred inflow of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 40,869
Changes of assumptions	3,081,188
Net difference between projected and actual earnings on OPEB plan investments	8,462
Total	<u>\$ 3,130,519</u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 420,034
2020	420,034
2021	420,034
2022	420,034
2023	417,918
Thereafter	1,032,465
	<u>\$ 3,130,519</u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### **Medicare Premium Payment (MPP) Program**

#### **Plan Description**

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

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

#### **Benefits Provided**

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

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

#### **Contributions**

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

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

At June 30, 2018, the District reported a liability of \$821,853 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating community college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.1954 percent and 0.1865, respectively, resulting in a net increase in the proportionate share of 0.0089 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(51,047).

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Actuarial Methods and Assumptions

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

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

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

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Discount Rate

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 909,849
Current discount rate (3.58%)	821,853
1% increase (4.58%)	736,259

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 742,670
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	821,853
1% increase (4.7% Part A and 5.1% Part B)	900,245

### Aggregate Net Pension Obligation

At June 30, 2018, the liability for the aggregate net pension obligation amounted to \$161,675,950. See Note 12 for additional information.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### NOTE 11 - RISK MANAGEMENT

#### Property and Liability Insurance Coverages

The District is exposed to various risks of loss related to torts and liability; theft of, damage to and destruction of assets; errors and omissions and injuries to employees. The District obtains coverage for these risks as a member of various joint powers authorities or through the purchase of coverage from a risk retention group. The District has coverage up to \$55,000,000 for liability and tort risks. This coverage is subject to a \$50,000 self-insured retention for each general liability claim and \$25,000 for each property damage claim. The District participates in a JPA to provide excess insurance coverage above the self-insured retention level. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

#### Workers' Compensation

For fiscal year 2017-2018, the District participated in the Schools Alliance for Workers' Compensation Excess Group Purchase (SAWCX II) Joint Powers Authority (JPA), an insurance purchasing pool. The District is self insured for the first \$500,000 of each workers' compensation claim. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to community college districts that can meet the JPA's selection criteria.

#### Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	<u>Workers'</u> <u>Compensation</u>	<u>Property</u> <u>and Liability</u>
Liability Balance, July 1, 2016	\$ 4,937,603	\$ 225,000
Claims and changes in estimates	1,260,186	1,121,244
Claims payments	<u>(1,231,206)</u>	<u>(1,121,244)</u>
Liability Balance, June 30, 2017	4,966,583	225,000
Claims and changes in estimates	1,545,485	756,642
Claims payments	<u>(1,573,823)</u>	<u>(756,642)</u>
Liability Balance, June 30, 2018	<u>\$ 4,938,245</u>	<u>\$ 225,000</u>
Assets Available to Pay Claims at June 30, 2018	<u>\$ 7,859,424</u>	<u>\$ 1,227,334</u>

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

**NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of California State Teachers' Retirement System (CalSTRS) and classified employees are members of California Public Employees' Retirement System (CalPERS).

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 99,788,463	\$ 32,649,356	\$ 13,444,166	\$ 9,529,629
CalPERS	50,775,459	15,420,287	2,483,850	8,614,006
\$1,440 Lifetime Benefit	11,112,028	7,181	339,250	613,748
Total	<u>\$ 161,675,950</u>	<u>\$ 48,076,824</u>	<u>\$ 16,267,266</u>	<u>\$ 18,757,383</u>

The details of each plan are as follows:

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

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

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

**Benefits Provided**

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

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

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

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

### Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the District's total contributions were \$9,399,768.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

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

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

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 99,788,463
State's proportionate share of net pension liability associated with the District	<u>59,034,012</u>
Total	<u>\$ 158,822,475</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.1079 percent and 0.1049 percent, respectively, resulting in a net increase in the proportionate share of 0.0030 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$9,529,629. In addition, the District recognized pension expense and revenue of \$5,942,340 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 9,399,768	\$ -
Net change in proportionate share of net pension liability	4,393,583	9,046,049
Differences between projected and actual earnings on the pension plan investments	-	2,657,645
Differences between expected and actual experience in the measurement of the total pension liability	369,027	1,740,472
Changes of assumptions	<u>18,486,978</u>	-
Total	<u>\$ 32,649,356</u>	<u>\$ 13,444,166</u>

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

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (2,209,398)
2020	1,671,863
2020	241,072
2022	(2,361,182)
Total	<u>\$ (2,657,645)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,885,241
2020	1,885,241
2021	1,885,241
2022	1,885,244
2023	1,463,328
Thereafter	3,458,772
Total	<u>\$ 12,463,067</u>

**Actuarial Methods and Assumptions**

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

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

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

### **Discount Rate**

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 146,521,144
Current discount rate (7.10%)	99,788,463
1% increase (8.10%)	61,861,725

### **California Public Employees' Retirement System (CalPERS)**

#### **Plan Description**

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

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

#### **Benefits Provided**

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

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

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

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the total District contributions were \$4,350,794.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$50,775,459. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.2127 percent and 0.2259 percent, respectively, resulting in a net decrease in the proportionate share of 0.0132 percent.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$8,641,006. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,350,794	\$ -
Net change in proportionate share of net pension liability	77,381	1,886,032
Differences between projected and actual earnings on the pension plan investments	1,756,483	-
Differences between expected and actual experience in the measurement of the total pension liability	1,819,075	-
Changes of assumptions	7,416,554	597,818
Total	<u>\$ 15,420,287</u>	<u>\$ 2,483,850</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (47,595)
2020	2,026,601
2021	739,327
2022	(961,850)
Total	<u>\$ 1,756,483</u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,404,181
2020	2,361,027
2021	2,063,952
Total	<u>\$ 6,829,160</u>

### Actuarial Methods and Assumptions

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

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

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

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

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

**Discount Rate**

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 74,706,972
Current discount rate (7.15%)	50,775,459
1% increase (8.15%)	30,922,266

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

**\$1,440 Lifetime Benefit Plan**

**Plan Description**

The District administers and contributes to a single-employer defined benefit pension plan for eligible retirees upon retirement from the District and reaching the age of 65. An annual payment of \$1,440 is contributed by the District to eligible retirees. This plan is subject to the reporting requirements under GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. There are 801 active employees who may become eligible to retire and receive benefits in the future, 49 retirees with deferred benefits, and 414 retirees receiving District-paid benefits as of the July 1, 2017 valuation date. The measurement date for the total pension liability is June 30, 2018. As of June 30, 2018, there are no assets accumulated in a trust that meets the criteria in GASB Statement No. 73, paragraph 4.

**Benefits Provided**

The District provides an annual payment of \$1,440 to eligible retirees to help offset the costs of healthcare coverage. To be eligible for the benefit, regular full-time employees of the District, excluding hourly and adjunct employees, must have completed at least 14 years of service to the District, with the exception that classified employees who are members of CFT Local 6525 hired on or after July 1, 2011 who must have at least 22 years of service to be eligible. Benefits take effect upon the eligible retiree reaching the age of 65. There is no requirement for the \$1,440 to be spent on health insurance and is treated as taxable income to the retiree, and is thus considered to be a pension rather than a retiree health benefit falling within the scope of GASB Statement No. 75. The benefit is paid in full in the first year of eligibility and there are no spousal or survivor benefits paid under this plan. Benefit payments made in the 2017-18 fiscal year, inclusive of the implicit subsidy, was \$613,748.

This benefit is payable in addition to pension benefits that may be payable under one of the District's other pension plans (CalPERS, CalSTRS, or a supplemental employee retirement plan).

The \$1,440 Lifetime Benefit provisions and benefits in effect at June 30, 2018, are summarized as follows:

	CFT Local #6525	All Other Regular, Full-Time Employees
Hire date	On or after July 1, 2011	N/A
Benefit formula	\$1,440	\$1,440
Benefit vesting schedule	22 years of service	14 years of service
Benefit payments	Annual for life	Annual for life
Vesting age	65	65
Required employee contribution rate	N/A	N/A
Required employer contribution rate	\$1,440 per retiree	\$1,440 per retiree

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

**Contributions**

The District provides an annual contribution of \$1,440 to all eligible retirees in the plan. Total District contributions for the year ended June 30, 2018 were \$588,960, inclusion of an implicit subsidy.

**Changes in the Total Pension Liability (TOL)**

	Total Pension Liability
Balance at June 30, 2017	\$ 11,419,309
Service cost	264,759
Interest	415,403
Difference between expected and actual experience	8,617
Changes of assumptions	(407,100)
Benefit payments	(588,960)
Net change in total pension liability	(307,281)
Balance at June 30, 2018	<u>\$ 11,112,028</u>

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

As of June 30, 2018, the District reported total pension liabilities for the \$1,440 Lifetime Benefit totaling \$11,112,028. The net pension liability was measured as of June 30, 2018. The District's total pension liability was based on a projection of the District's long-term contributions to the pension plan and was actuarially determined.

For the year ended June 30, 2018, the District recognized pension expense of \$613,748. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the total pension liability	\$ 7,181	\$ -
Changes of assumptions	-	339,250
Total	<u>\$ 7,181</u>	<u>\$ 339,250</u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

The deferred outflows/(inflows) of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ 1,436
2020	1,436
2021	1,436
2022	1,436
2023	1,437
Total	<u>\$ 7,181</u>

  

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (67,850)
2020	(67,850)
2021	(67,850)
2022	(67,850)
2023	(67,850)
Total	<u>\$ (339,250)</u>

### Actuarial Methods and Assumptions

Total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	July 1, 2017
Measurement date	June 30, 2018
Experience study	Through July 1, 2017
Actuarial cost method	Entry age, level percent of pay
Discount rate	3.90%, net of investment expenses
Inflation rate	2.25%
Wage growth	3.00% average, including inflation

The mortality tables used were the RP-2014 Employee Mortality table for determining pre-retirement mortality and the RP-2014 Healthy Annuitant Mortality tables for post-retirement mortality.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Discount Rate

The discount rate used to measure the total pension liability was 3.90 percent. The discount rate was based on the Bond Buyer 20-Bond General Obligation Index.

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

<u>Discount Rate</u>	<u>Total Pension Liability</u>
1% decrease (2.90%)	\$ 13,072,530
Current discount rate (3.90%)	11,112,028
1% increase (4.90%)	9,926,999

### Accumulation Program for Part-Time and Limited Services Employees (APPLE)

#### Plan Description

The Accumulation Program for Part-Time and Limited Service Employees (APPLE) is a defined contribution plan qualifying under Section 401(a) and 501 of the Internal Revenue Code. This plan covers part-time, seasonal, and temporary employees and those employees not covered by Section 3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of the plan members and the District are established and may be amended by APPLE Administration Committee.

#### Funding Plan

Contributions of 3.75 percent of covered compensation of eligible employees are made by the employee. Total District contributions were made in the amount of \$539,487 during the fiscal year. The total amount of covered compensation was \$14,386,320. Total required contribution rate is 7.50 percent, 3.75 percent represents the District's contribution, and the remaining 3.75 percent is contributed by the employee.

#### On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2018, which amounted to \$4,800,729 (9.328 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2018. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of operating revenue and employee benefit expense.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

The District is a member of the Statewide Association of Community Colleges (SWACC) and Schools Alliance for Workers' Compensation Excess Group Purchase (SAWCX II) Joint Powers Authority JPAs. The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

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

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

During the year ended June 30, 2018, the District made premium payments of \$663,663 and \$214,514 to SWACC and SAWCX II, respectively.

### ***NOTE 14 - COMMITMENTS AND CONTINGENCIES***

#### **Grants**

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

#### **Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Operating Leases

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

Year Ending June 30,	Lease Payment
2019	\$ 901,073
2020	945,354
2021	359,780
2022	128,192
2023	128,192
2024-2028	661,038
2029-2033	691,730
2034-2038	728,314
2039-2043	538,743
2044-2048	232,791
2049-2053	241,575
2054-2055	48,315
Total	<u>\$ 5,605,097</u>

Rental expenditures for the year ended June 30, 2018, amounted to \$1,190,430.

### Construction Commitments

As of June 30, 2018, the District has total construction commitments of \$3,037,722. \$2,815,945 is committed from the Bond Fund to various campus-wide modernization and upgrade projects with an expected completion date of June 2019. The remaining \$221,777 is committed from the Capital Outlay Fund to various campus wide improvement projects with completion dates through July 2020.

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

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

***NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION***

The District adopted GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

<u>Primary Government</u>	
Net Position - Beginning	\$ 64,962,520
Inclusion of pension liability from the adoption of GASB Statement No. 73	(11,419,309)
Inclusion of aggregate net OPEB liability from the adoption of GASB Statement No. 75	<u>(22,928,992)</u>
Net Position - Beginning, as Restated	<u>\$ 30,614,219</u>

---

---

***REQUIRED SUPPLEMENTARY INFORMATION***

---

---

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 2,102,668
Interest	1,189,667
Differences between expected and actual experience	(46,340)
Changes of assumptions	(3,493,635)
Benefit payments	<u>(1,373,478)</u>
<b>Net changes in total OPEB liability</b>	(1,621,118)
<b>Total OPEB Liability - beginning</b>	<u>31,653,542</u>
<b>Total OPEB Liability - ending (a)</b>	<u><u>\$ 30,032,424</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 11,373,478
Net investment income	10,578
Benefit payments	<u>(1,373,478)</u>
<b>Net change in plan fiduciary net position</b>	10,010,578
<b>Plan fiduciary net position - beginning</b>	<u>-</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 10,010,578</u></u>
<b>District's net OPEB liability - ending (a) - (b)</b>	<u><u>\$ 20,021,846</u></u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<u>33.33%</u>
<b>Covered-employee payroll</b>	<u>\$ 111,386,200</u>
<b>District's net OPEB liability as a percentage of covered-employee payroll</b>	<u>17.98%</u>

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

See accompanying note to required supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	<u>0.11%</u>

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

See accompanying note to required supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.1954%</u>
District's proportionate share of the net OPEB liability	<u>\$ 821,853</u>
District's covered-employee payroll	<u>N/A<sup>1</sup></u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A<sup>1</sup></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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

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

See accompanying note to required supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.1079%</u>	<u>0.1049%</u>
District's proportionate share of the net pension liability	\$ 99,788,463	\$ 84,925,050
State's proportionate share of the net pension liability associated with the District	<u>59,034,012</u>	<u>48,353,434</u>
Total	<u>\$ 158,822,475</u>	<u>\$ 133,278,484</u>
District's covered-employee payroll	<u>\$ 59,175,731</u>	<u>\$ 54,376,431</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>168.63%</u>	<u>156.18%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.2127%</u>	<u>0.2259%</u>
District's proportionate share of the net pension liability	<u>\$ 50,775,459</u>	<u>\$ 44,615,390</u>
District's covered-employee payroll	<u>\$ 27,289,207</u>	<u>\$ 27,614,430</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>186.06%</u>	<u>161.57%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

See accompanying note to required supplementary information.

---

<u>2016</u>	<u>2015</u>
<u>0.1220%</u>	<u>0.1160%</u>
\$ 82,135,280	\$ 67,786,920
<u>43,440,392</u>	<u>40,933,080</u>
<u>\$ 125,575,672</u>	<u>\$ 108,720,000</u>
<u>\$ 54,725,507</u>	<u>\$ 51,472,000</u>
<u>150.09%</u>	<u>131.70%</u>
<u>74%</u>	<u>77%</u>
<u>0.2295%</u>	<u>0.2236%</u>
\$ 33,828,527	\$ 25,384,044
\$ 23,322,540	\$ 23,477,000
<u>145.05%</u>	<u>108.12%</u>
<u>79%</u>	<u>83%</u>

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

	<u>2018</u>
<b>\$1,440 Lifetime Benefit</b>	
District's total pension liability	<u>\$ 11,112,028</u>
District's covered-employee payroll	<u>\$ 111,386,200</u>
District's total pension liability as a percentage of its covered-employee payroll	<u>9.98%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>N/A</u>

*Note*: In the future, as data becomes available, ten years of information will be presented. 2018 is the first year for inclusion of the District's GASB Statement No. 73 \$1,440 Lifetime Benefit pension.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 9,399,768	\$ 7,444,307
Contributions in relation to the contractually required contribution	<u>9,399,768</u>	<u>7,444,307</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 65,140,457</u>	<u>\$ 59,175,731</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 4,350,794	\$ 3,787,742
Contributions in relation to the contractually required contribution	<u>4,350,794</u>	<u>3,787,742</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 28,015,415</u>	<u>\$ 27,289,207</u>
Contributions as a percentage of covered-employee payroll	<u>15.53%</u>	<u>13.88%</u>
<b>\$1,440 Lifetime Benefit</b>		
Contractually required contribution	\$ 588,960	
Contributions in relation to the contractually required contribution	<u>588,960</u>	
Contribution deficiency (excess)	<u>\$ -</u>	
District's covered-employee payroll	<u>\$ 111,386,200</u>	
Contributions as a percentage of covered-employee payroll	<u>0.53%</u>	

*Note:* In the future, as data becomes available, ten years of information will be presented. 2018 is the first year for inclusion of the District's GASB Statement No. 73 \$1,440 Lifetime Benefit pension.

---

2016	2015
\$ 5,834,591	\$ 4,859,625
<u>5,834,591</u>	<u>4,859,625</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 54,376,431	\$ 54,725,507
<u>10.73%</u>	<u>8.88%</u>
\$ 3,272,310	\$ 2,745,063
<u>3,272,310</u>	<u>2,745,063</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 27,614,430	\$ 23,322,540
<u>11.85%</u>	<u>11.77%</u>

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

---

### *NOTE 1 - PURPOSE OF SCHEDULES*

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

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

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

*Changes of Assumptions* - Change in the discount rate from 3.60 percent as of July 1, 2017 to 5.25 percent as of June 30, 2018.

#### **Schedule of OPEB Investment Returns**

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

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

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

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

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

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

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

*Changes in Benefit Terms* - There were no changes in benefit terms since the previous valuations for the CalSTRS, CalPERS, and \$1,440 Lifetime Benefit plans.

*Changes of Assumptions* - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation. The \$1,440 Lifetime Benefit plan discount rate was changed from 3.60 percent to 3.90 percent since the valuation date.

#### **Schedule of District Contributions for Pensions**

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

---

---

***SUPPLEMENTARY INFORMATION***

---

---

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## DISTRICT ORGANIZATION JUNE 30, 2018

---

Pasadena Area Community College District (the District) was established in 1967, and is located in Los Angeles County. There were no changes in the boundaries of the District during the current year. The District's college is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

### BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Anthony F. Fellow, Ph.D.	President	July 2018
James A. Osterling	Vice President	July 2020
Hoyt R. Hilsman	Clerk	July 2020
Berlinda Brown	Member	July 2018
Linda S. Wah	Member	July 2018
John H. Martin	Member	July 2020
Ross Selvidge, Ph.D.	Member	July 2018

### ADMINISTRATION

Rajen Vurdien, Ph.D.	Superintendent/President and Board of Trustees Secretary
Robert H Bell, Ed.D.	Assistant Superintendent/Senior Vice President, Non-Credit and Offsite Campuses
Terrence D. Giugni, Ph.D.	Assistant Superintendent/Vice President, Instruction
Richard S. Storti, Ed.D.	Assistant Superintendent/Vice President, Business and Administrative Services

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
TRIO Cluster			
TRIO - Student Support Services	84.042A		\$ 320,955
TRIO - Talent Search-Pasadena/Rosemead	84.044A		186,553
TRIO - Talent Search-El Monte	84.044A		239,262
TRIO - Upward Bound-Pasadena	84.047A		336,386
TRIO - Upward Bound-El Monte/Rosemead	84.047A		316,515
TRIO - Upward Bound Math and Science-Pasadena	84.047M		255,782
TRIO - Upward Bound Math and Science-El Monte	84.047M		255,536
Total TRIO Cluster			<u>1,910,989</u>
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		726,943
Supplemental Educational Opportunity Grant - Administrative Allowance	84.007		43,314
Federal Direct Student Loans	84.268		1,146,662
Federal Work Study Program	84.033		642,585
Federal Pell Grant Program	84.063		36,062,025
Federal Pell Grant Program - Administrative Allowance	84.063		50,650
Total Student Financial Assistance Cluster			<u>38,672,179</u>
Passed through from the California Community Colleges Chancellor's Office			
Career and Technical Education Act (Perkins Title I-Part C)	84.048A	17-C01-040	790,989
CTE Transitions	84.048A	17-C01-040	41,592
Passed through from California Department of Education			
Adult Basic Education	84.002A	14508	229,151
Adult Secondary Education (ASE)	84.002	13978	23,753
STEM GPS (Guided Pathway Solution)	84.031C		1,643,417
Developing Accessible Intersegmental STEM Pathway in Environmental Sciences for Underserved Hispanic Students	84.031C		7,408
Building a Design Technology Pathway	84.031S		525,926
Safe Pathway to Degree Completion for Hispanic and Other At-Risk Students	84.031S		473,379
Passed through Cal State L.A. University Auxiliary Services, Inc.			
STEM Education Consortium	84.116F	PCC231225	178,313
<b>Total U.S. Department of Education</b>			<u>44,497,096</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the California Department of Education			
Child and Adult Care Food Program	10.558	13666	42,991
Summer Food Math Science Upward Bound	10.559	13004	20,370
<b>Total U.S. Department of Agriculture</b>			<u>63,361</u>

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>SMALL BUSINESS ADMINISTRATION</b>			
Passed through Long Beach Community College District Small Business Development	59.037	[1]	\$ 207,066
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Passed through the City of Pasadena Community Development Block Grant: Project Leap	14.218	B-17-MC-06-0525	750
Research and Development Cluster			
<b>NATIONAL SCIENCE FOUNDATION</b>			
Early Career Undergraduate Research Experience (eCURE) Passed through from Carleton College	47.076		292,669
Carleton College Integrate	47.076	DUE-1125331	15,845
<b>NATIONAL INSTITUTES OF HEALTH</b>			
Passed through California State University, Northridge Trans-NIH Research Support Common Fund: BUILD PODER	93.310	F-14-3510-PCC	8,212
<b>Total Research and Development Cluster</b>			<u>316,726</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through from the California Community Colleges Chancellor's Office Foster and Kinship Care Education Program (FKCE)	93.658	[1]	56,148
TANF Cluster			
Passed through from the California Community Colleges Chancellor's Office Temporary Assistance for Needy Families (TANF)	93.558	[1]	69,955
Passed through the County of Los Angeles, Department of Public Social Services	93.558	CCCP 15009	73,275
Total TANF Cluster			<u>143,230</u>
CCDF Cluster			
Passed through the California Department of Education Child Care and Development Block Grant	93.575	15136	23,686
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	13609	51,530
Total CCDF Cluster			<u>75,216</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>274,594</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 45,359,593</u>

[1] Pass through- identifying number not available.

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
AB 104 - AEBG 17-18	\$ 1,772,131	\$ -	\$ 1,772,131
AB 104 - AEBG FY16-17	-	1,778,838	1,778,838
AB 798 Textbook Affordability Program	45,976	-	45,976
Associate Degree Nursing	154,000	18,409	172,409
Basic Skills	720,063	196,012	916,075
Basic Skills and Student Outcomes Program	492,797	204,642	697,439
Biotechnology ISPIC Grant	22,550	-	22,550
Bridges to Stem Cell Research	391,474	600,906	992,380
Cal Grant "B"	2,500,000	-	2,500,000
Cal Grant "C"	20,000	-	20,000
CalWORKs	389,266	-	389,266
Career Pathways Trust (Ametll)	1,325,078	-	1,325,078
Career Pathways Trust (LA Hi-Tech)	8,944,876	-	8,944,876
Child Development Program	148,895	-	148,895
Child Development Program	216,714	-	216,714
Child Development Program	1,972	-	1,972
Community College Completion Grant	574,500	-	574,500
Cooperative Agencies Foster Youth Ed Support (CAFYES)	706,889	-	706,889
Cooperative Agencies Resources For Education (CARE)	114,941	-	114,941
CTE: Strong Workforce Program (SWP) Regional-Round 1	1,121,943	-	1,121,943
CTE: Strong Workforce Program (SWP)-Local-Round 1	260,392	1,438,703	1,699,095
CTE: Strong Workforce Program (SWP)-Local-Round 2- Year 1	1,415,297	-	1,415,297
Deferred Action Child Arrivals-DACA	125,858	-	125,858
Disabled Students Program and Services (DSPS)	1,042,181	-	1,042,181
Extended Opportunity Program and Services (EOP&S)	1,053,720	-	1,053,720
Foster Care Education Program	77,168	-	77,168
Full Time Student Success Grant	750,000	40,000	790,000
GO_Biz	84,000	-	84,000
Hunger Free Campus	53,133	-	53,133
Instructional Equipment	738,347	1,138,644	1,876,991
MESA	74,515	-	74,515
SFAA Augmentation	608,251	-	608,251
Sierra Joint CCD, Innovation Maker 3	176,094	-	176,094
SSSP - Credit	4,353,741	501,046	4,854,787
SSSP - Non Credit	436,162	198,768	634,930
Staff Diversity - AB1725	50,000	-	50,000
Student Equity	2,075,674	762,350	2,838,024
Student Financial Aid Administration	257,777	-	257,777
Zero Textbook Cost Degree	150,000	11,226	161,226
Subtotal			<u>\$ 40,335,919</u>

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
\$ 1,772,131	\$ -	\$ 471,235	\$ 1,300,896	\$ 1,300,896
1,778,838	-	-	1,778,838	1,778,838
40,976	-	20,569	20,407	20,407
18,357	153,295	-	171,652	171,652
916,075	-	608,804	307,271	307,271
306,445	240,952	-	547,397	547,397
-	10,340	-	10,340	10,340
992,380	-	636,505	355,875	355,875
3,312,619	21,245	-	3,333,864	3,333,864
36,375	-	-	36,375	36,375
385,528	3,738	-	389,266	389,266
563,165	712,747	-	1,275,912	1,275,912
8,974,795	-	262,825	8,711,970	8,711,970
132,448	10,821	-	143,269	143,269
142,966	17,411	-	160,377	160,377
1,581	391	-	1,972	1,972
574,500	-	305,250	269,250	269,250
706,889	-	127,485	579,404	579,404
114,941	-	-	114,941	114,941
23,645	133,487	-	157,132	157,132
1,699,093	-	1,303,761	395,332	395,332
1,415,297	-	1,415,297	-	-
125,858	-	13,513	112,345	112,345
1,042,181	-	-	1,042,181	1,042,181
1,053,720	-	-	1,053,720	1,053,720
73,250	2,975	-	76,225	76,225
1,472,500	-	8,200	1,464,300	1,464,300
84,000	-	-	84,000	84,000
53,133	-	47,347	5,786	5,786
1,876,991	-	776,825	1,100,166	1,100,166
29,806	44,676	-	74,482	74,482
608,251	-	-	608,251	608,251
107,075	55,643	-	162,718	162,718
4,854,787	-	-	4,854,787	4,854,787
634,930	-	150,469	484,461	484,461
50,000	-	167	49,833	49,833
2,838,024	-	668,368	2,169,656	2,169,656
257,777	-	-	257,777	257,777
7,831	4,564	-	12,395	12,395
<u>\$ 39,079,158</u>	<u>\$ 1,412,285</u>	<u>\$ 6,816,620</u>	<u>\$ 33,674,823</u>	<u>\$ 33,674,823</u>

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

CATEGORIES	*Revised Reported Data	Audit Adjustments	Audited Data
<b>A. Summer Intersession (Summer 2017 only)</b>			
1. Noncredit**	144.54	-	144.54
2. Credit	1,296.17	-	1,296.17
<b>B. Summer Intersession (Summer 2018 - Prior to July 1, 2018)</b>			
1. Noncredit**	-	-	-
2. Credit	442.02	-	442.02
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses			-
(a) Weekly Census Contact Hours	15,961.46	-	15,961.46
(b) Daily Census Contact Hours	2,028.35	-	2,028.35
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	1,042.04	-	1,042.04
(b) Credit	726.83	-	726.83
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,275.45	-	1,275.45
(b) Daily Census Contact Hours	1,071.69	-	1,071.69
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
<b>D. Total FTES</b>	<b><u>23,988.55</u></b>	<b><u>-</u></b>	<b><u>23,988.55</u></b>
<b>SUPPLEMENTAL INFORMATION (Subset of Above Information)</b>			
<b>E. In-Service Training Courses (FTES)</b>	-	-	-
<b>H. Basic Skills Courses and Immigrant Education</b>			
1. Noncredit**	957.66	-	957.66
2. Credit	923.88	-	923.88
<b><u>CCFS-320 Addendum</u></b>			
CDCP Noncredit FTES	1,033.81	-	1,033.81
Centers FTES			
1. Noncredit**	932.10	-	932.10
2. Credit	595.93	-	595.93

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

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

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<b><u>Academic Salaries</u></b>							
<b>Instructional Salaries</b>							
Contract or Regular	1100	\$ 32,898,832	\$ -	\$ 32,898,832	\$ 33,399,459	\$ -	\$ 33,399,459
Other	1300	28,656,029	-	28,656,029	28,656,029	-	28,656,029
<b>Total Instructional Salaries</b>		<b>61,554,861</b>	<b>-</b>	<b>61,554,861</b>	<b>62,055,488</b>	<b>-</b>	<b>62,055,488</b>
<b>Noninstructional Salaries</b>							
Contract or Regular	1200	-	-	-	9,972,281	-	9,972,281
Other	1400	-	-	-	536,201	-	536,201
<b>Total Noninstructional Salaries</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>10,508,482</b>	<b>-</b>	<b>10,508,482</b>
<b>Total Academic Salaries</b>		<b>61,554,861</b>	<b>-</b>	<b>61,554,861</b>	<b>72,563,970</b>	<b>-</b>	<b>72,563,970</b>
<b><u>Classified Salaries</u></b>							
<b>Noninstructional Salaries</b>							
Regular Status	2100	-	-	-	21,599,367	-	21,599,367
Other	2300	-	-	-	1,688,844	-	1,688,844
<b>Total Noninstructional Salaries</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>23,288,211</b>	<b>-</b>	<b>23,288,211</b>
<b>Instructional Aides</b>							
Regular Status	2200	-	-	-	-	-	-
Other	2400	143,359	-	143,359	143,359	-	143,359
<b>Total Instructional Aides</b>		<b>143,359</b>	<b>-</b>	<b>143,359</b>	<b>143,359</b>	<b>-</b>	<b>143,359</b>
<b>Total Classified Salaries</b>		<b>143,359</b>	<b>-</b>	<b>143,359</b>	<b>23,431,570</b>	<b>-</b>	<b>23,431,570</b>
Employee Benefits	3000	17,305,957	-	17,305,957	36,273,807	-	36,273,807
Supplies and Material	4000	-	-	-	757,120	-	757,120
Other Operating Expenses	5000	-	-	-	11,760,973	-	11,760,973
Equipment Replacement	6420	-	-	-	-	-	-
<b>Total Expenditures</b>		<b>79,004,177</b>	<b>-</b>	<b>79,004,177</b>	<b>144,787,440</b>	<b>-</b>	<b>144,787,440</b>
<b>Prior to Exclusions</b>							

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<b><u>Exclusions</u></b>							
<b>Activities to Exclude</b>							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 514,663	\$ -	\$ 514,663	\$ 514,663	\$ -	\$ 514,663
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	122,158	-	122,158
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	322,858	-	322,858
<b>Objects to Exclude</b>							
Rents and Leases	5060	-	-	-	839,895	-	839,895
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	-	-	-	-	-	-
<b>Total Supplies and Materials</b>		-	-	-	-	-	-

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 4,175,348	\$ -	\$ 4,175,348
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	-	-	-
<b>Total Equipment</b>		-	-	-	-	-	-
<b>Total Capital Outlay</b>							
Other Outgo	7000	-	-	-	-	-	-
<b>Total Exclusions</b>		514,663	-	514,663	5,974,922	-	5,974,922
<b>Total for ECS 84362, 50 Percent Law</b>		\$78,489,514	\$ -	\$78,489,514	\$ 138,812,518	\$ -	\$ 138,812,518
<b>Percent of CEE (Instructional Salary Cost/Total CEE)</b>		56.54%		56.54%	100.00%		100.00%
<b>50% of Current Expense of Education</b>					\$ 69,406,259		\$ 69,406,259

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

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

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

<b>Activity Classification</b>	<b>Object Code</b>				<b>Unrestricted</b>
EPA Proceeds:	8630				\$ 18,297,234
<b>Activity Classification</b>	<b>Activity Code</b>	<b>Salaries and Benefits (Obj 1000-3000)</b>	<b>Operating Expenses (Obj 4000-5000)</b>	<b>Capital Outlay (Obj 6000)</b>	<b>Total</b>
Instructional Activities	1000-5900	\$ 18,297,234			\$ 18,297,234
<b>Revenues Less Expenditures</b>					\$ -

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

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

**Total Fund Balance:**

General Funds	\$ 29,640,657
Special Revenue Funds	361,476
Capital Project Funds	15,552,296
Debt Service Funds	6,680,299
Enterprise Funds	1,790,807
Internal Service Funds	15,725,545
Student Financial Aid Fund	796,977

**Total Fund Balance - All Governmental Funds** **\$ 70,548,057**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	346,271,209	
Accumulated depreciation is	<u>(150,360,868)</u>	195,910,341

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred. (1,677,705)

Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities. 2,418,364

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

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

Pension contributions subsequent to measurement date	13,750,562	
Net change in proportionate share of net pension liability	4,470,964	
Differences between projected and actual earnings on pension plan investments	1,756,483	
Differences between expected and actual experience in the measurement of the total pension liability	2,195,283	
Changes of assumptions	<u>25,903,532</u>	
<b>Total Deferred Outflows of Resources Related to Pensions</b>		<b>48,076,824</b>

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

Net change in proportionate share of net pension liability	(10,932,081)	
Differences between projected and actual earnings on pension plan investments	(2,657,645)	
Differences between expected and actual experience in the measurement of the total pension liability	(1,740,472)	
Changes of assumptions	<u>(937,068)</u>	
<b>Total Deferred Inflows of Resources Related to Pensions</b>		<b>(16,267,266)</b>

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

Deferred Inflows of resources related to OPEB at year-end consist of:

Differences between projected and actual earnings on pension plan investments	\$ (8,462)	
Differences between expected and actual experience in the measurement of the total pension liability	(40,869)	
Changes of assumptions	<u>(3,081,188)</u>	
<b>Total Deferred Inflows of Resources Related to OPEB</b>		<b>\$ (3,130,519)</b>

Aggregate net pension obligation is not due and payable in the current period, and is not reported as a liability in the funds. (161,675,950)

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

Long-term obligations at year end consist of:

Bonds payable, net of premium	85,844,686	
Capital leases payable	98,620	
Compensated absences (vacations)	2,564,757	
Aggregate net other postemployment benefits (OPEB) liability	20,843,699	
Supplemental employee retirement plan (SERP) and load banking	<u>2,003,603</u>	<u>(111,355,365)</u>
<b>Total Net Position</b>		<b><u><u>\$ 22,846,781</u></u></b>

See accompanying note to supplementary information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

---

**NOTE 1 - PURPOSE OF SCHEDULES**

**District Organization**

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

**Schedule of Expenditures of Federal Awards**

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of, Build America Bonds, Temporary Assistance for Needy Families (TANF), and Career and Technical Education Act (Perkins Title I-Part C) funds have been recorded in the current period as revenues that have not been expended as of June 30, 2018. These unspent balances are reported as legally restricted ending balances within the Statement of Net Position - Primary Government.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenditures, and Changes in Net Position:		\$ 45,994,529
Build America Bonds	N/A	(544,603)
Temporary Assistance for Needy Families (TANF)	93.558	(16,788)
Career and Technical Education Act (Perkins Title I-Part C)	84.048A	(73,545)
Total Expenditures of Federal Awards		<u>\$ 45,359,593</u>

**Schedule of Expenditures of State Awards**

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

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

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

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

---

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

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

### **Reconciliation of Annual Financial and Budget Report (CCFS-311) With Audited Financial Statements**

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

### **Proposition 30 Education Protection Account (EPA) Expenditure Report**

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

### **Reconciliation of Governmental Funds to the Statement of Net Position**

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

---

---

***INDEPENDENT AUDITOR'S REPORTS***

---

---



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

Board of Trustees  
Pasadena Area Community College District  
Pasadena, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Pasadena Area Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2018.

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

As discussed in Note 2 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rancho Cucamonga, California  
December 7, 2018



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

Board of Trustees  
Pasadena Area Community College District  
Pasadena, California

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

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

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

## Report on Internal Control Over Compliance

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

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

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

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

Vanneth, Tuma, Day & Co, LLP

Rancho Cucamonga, California  
December 7, 2018



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

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees  
Pasadena Area Community College District  
Pasadena, California

### Report on State Compliance

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

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the 2017-2018 California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

### Unmodified Opinion for Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the State programs noted below that were audited for the year ended June 30, 2018.

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

Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Dual Enrollment (CCAP and Non-CCAP)
Section 428	Student Equity
Section 429	Student Success and Support Program (SSSP) Funds
Section 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 439	Proposition 39 Clean Energy Fund
Section 440	Intersession Extension Programs
Section 444	Apprenticeship Related and Supplemental Instruction (RSI) Funds
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D and 51 State Bond Funded Projects
Section 491	Education Protection Account Funds

The District does operate an Intersession Extension Programs; therefore, the compliance tests within this section were not applicable.

The District reports no Apprenticeship Related and Supplemental Instruction (RSI) Funds; therefore, the compliance tests within this section were not applicable.

The District reports no attendance for classes with To Be Arranged (TBA) Hours; therefore, the compliance tests within this section were not applicable.

The District does not have any Proposition 1D and 51 State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

*Vannetta Tuma, Day & Co, LLP*

Rancho Cucamonga, California  
December 7, 2018

---

---

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

---

---

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007, 84.033, 84.063, 84.268</u>	<u>Student Financial Assistance Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,360,788</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
---	-------------------

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

None reported.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

None reported.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT**

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

---

None reported.

# PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

---

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

### *Financial Statement Findings*

None reported.

### *Federal Awards Findings*

None reported.

### *State Awards Findings*

None reported.