

**VICTOR VALLEY
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS

JUNE 30, 2016

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements - Primary Government	
Statement of Net Position	16
Statement of Revenues, Expenses, and Changes in Net Position	17
Statement of Cash Flows	18
Fiduciary Funds	
Statement of Net Position	20
Statement of Changes in Net Position	21
Notes to Financial Statements	22

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Other Postemployment Benefits (OPEB) Funding Progress	60
Schedule of the District's Proportionate Share of the Net Pension Liability	61
Schedule of District Contributions	62
Note to Required Supplementary Information	63

SUPPLEMENTARY INFORMATION

District Organization	65
Schedule of Expenditures of Federal Awards	66
Schedule of Expenditures of State Awards	67
Schedule of Workload Measures for State General Apportionment	68
Reconciliation of <i>Education Code</i> Section 84362 (50 Percent Law) Calculation	69
Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements	72
Proposition 30 Education Protection Act (EPA) Expenditure Report	73
Reconciliation of Governmental Funds to the Statement of Net Position	74
Note to Supplementary Information	76

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>	79
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	81
Report on State Compliance	83

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	86
Financial Statement Findings and Recommendations	87
Federal Awards Findings and Questioned Costs	88
State Awards Findings and Questioned Costs	89
Summary Schedule of Prior Audit Findings	90

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Victor Valley Community College District
Victorville, 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 Victor Valley Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2015-2016 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 15, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 60, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 61, and the Schedule of District Contributions on page 62 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*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavinek, Time, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



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USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities programs and financial condition of Victor Valley Community College District (the District) as of June 30, 2016. The report consists of three basic financial statements: the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

Victor Valley Community College District was established in 1961 and serves the County of San Bernardino and a small portion of the County of Los Angeles. Students in our college may complete the freshman and sophomore years of a baccalaureate degree and transfer to upper division study at a university or complete a certificated vocational program and move directly into the workforce.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business-Type Activity (BTA) model for financial statement reporting purposes.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

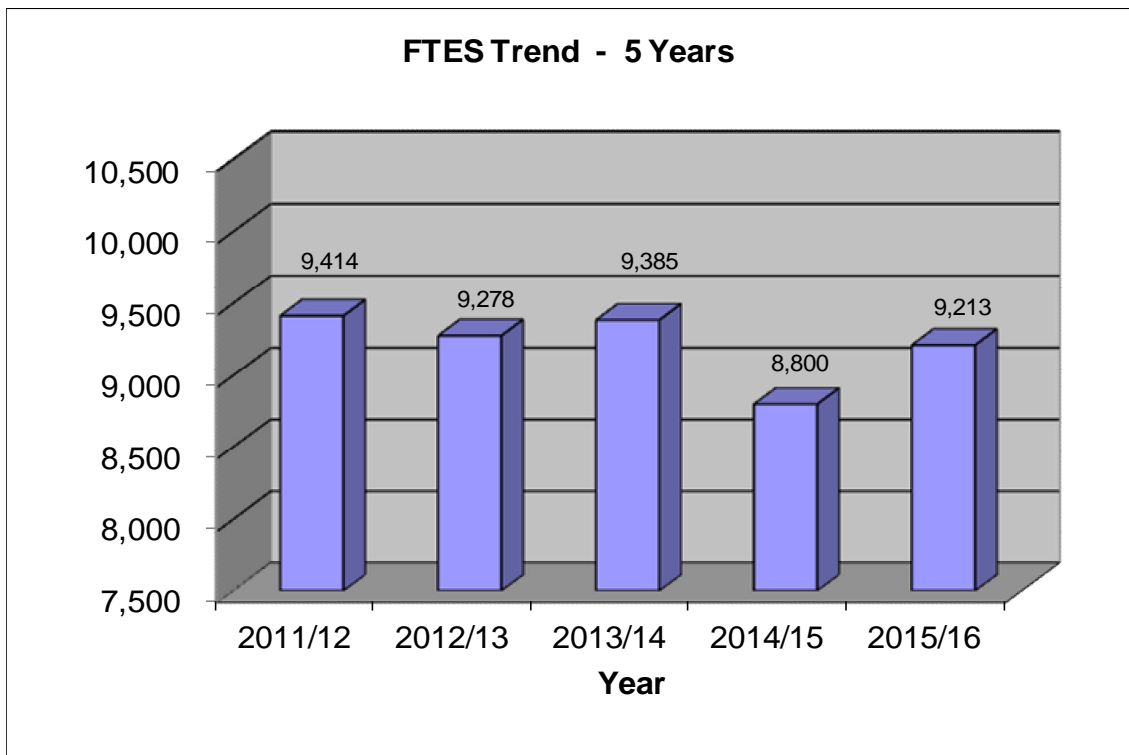
FINANCIAL HIGHLIGHTS

This section provides condensed information for each of the three basic financial statements, as well as illustrative charts and tables.

The District revenue increased from prior year due to several things including one time state mandate reimbursement (\$5 million) and an increase in base allocation (\$2.3 million). For the first time, the District was required to record CALSTRS on behalf of payments within our general unrestricted fund reporting. In the past, the payment was reflected as an annual audit adjustment in the combined audited financial statements. This change in practice represented an increase of \$1.4 million to the revenue and expenditures of the unrestricted general fund.

The college maintains its basic allocation as a mid-size college while in the second year of restoration. The total funded workload (as of the 2016-2017 Advance Principal Apportionment Report) was 9,531, comprised of a base FTES of 9,213, growth FTES of 316, and restored FTES of six. This funding is based on what was reported at the 2nd reporting period.

The District's primary funding is based upon an apportionment allocation made by the State of California Community Colleges Chancellor's Office. The primary basis for the Chancellor's apportionment calculation is the District's reporting of FTES. Below is the District's five-year trend for FTES:



VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Once the Chancellor's Office calculates the District's base apportionment, it reduces the net amount to be distributed by the amount of property taxes and enrollment fees expected to be paid directly to the District. The matrix below lists the three components and illustrates the net effect of the changes. Overall, total apportionment increased by \$4,917,294.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Property tax revenue	\$ 9,172,302	\$ 7,261,643	\$ 1,910,659
Tuition and fees	3,002,157	3,073,842	(71,685)
Apportionment	<u>40,367,737</u>	<u>37,289,417</u>	<u>3,078,320</u>
Total	<u>\$ 52,542,196</u>	<u>\$ 47,624,902</u>	<u>\$ 4,917,294</u>

SELECTED HIGHLIGHTS

During fiscal year 2015-2016, total FTES increased by 4.7 percent. At June 30, 2016, the value of the District's Other Postemployment Benefits (OPEB) irrevocable Futuris trust was \$10.6 million, and the District's GASB Statement No. 45 liabilities are 95 percent funded.

Statement of Net Position

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Position provides a picture of the net assets and their availability for expenditure by the District.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The Statement of Net Position presents the assets, liabilities, and net assets of the District as of the end of the fiscal year, and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Position is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Position presents end-of-year data concerning assets, liabilities, and net position.

(Amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>Change</u>
ASSETS			
Current Assets			
Cash and investments	\$ 47,707	\$ 43,990	\$ 3,717
Accounts receivable	3,093	5,183	(2,090)
Other current assets	975	1,651	(676)
Total Current Assets	<u>51,775</u>	<u>50,824</u>	<u>951</u>
Noncurrent Assets			
Investments	29,335	29,321	14
OPEB asset	7,497	7,302	195
Capital assets (net)	131,463	132,510	(1,047)
Total Noncurrent Assets	<u>168,295</u>	<u>169,133</u>	<u>(838)</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	14,304	-	14,304
Deferred outflows related to pensions	16,742	3,940	12,802
Total Assets and Deferred Outflows	<u>\$ 251,116</u>	<u>\$ 223,897</u>	<u>\$ 27,219</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 17,808	\$ 16,995	\$ 813
Current portion of long-term obligations	3,870	2,514	1,356
Total Current Liabilities	<u>21,678</u>	<u>19,509</u>	<u>2,169</u>
Long-Term Obligations			
Total Liabilities	<u>245,657</u>	<u>215,523</u>	<u>30,134</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	11,405	11,401	4
NET POSITION			
Net investment in capital assets	7,902	8,766	(864)
Restricted	12,760	12,561	199
Unrestricted	(26,608)	(24,354)	(2,254)
Total Net Position	<u>(5,946)</u>	<u>(3,027)</u>	<u>(2,919)</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 251,116</u>	<u>\$ 223,897</u>	<u>\$ 27,219</u>

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The difference between total assets and total liabilities is one indicator of the current financial condition of the District; the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. The District's net position decreased from last year by \$2.9 million for the fiscal year ending June 30, 2016. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less accumulated depreciation.

The net position is divided into three major categories. The first category, *net investment in capital assets*, provides the equity amount in the property, plant, and equipment owned by the District. The second category, *expendable restricted net position*, are net position available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is *unrestricted net position* that is available to the District for any lawful purpose of the District.

- Approximately 60 percent of the cash balance and investments is cash deposited in the San Bernardino County Treasury Pool. All funds are invested in accordance with Board Policy, which emphasizes prudence, safety, liquidity, and the return on investment. The Statement of Cash Flows contained within these financial statements provides greater detail regarding the sources and uses of cash.
- Capital assets had a net balance of \$131.5 million. Depreciation expense of \$4.0 million was recognized during 2015-2016.
- Accounts payable in the amount of \$8.6 million are amounts due as of the fiscal year-end for goods and services received as of June 30, 2016. Interest payable accruals total \$1.1 million. Other current liabilities in the amount of \$12.0 million related mainly to unearned revenues and the current portion of bonds payable and lease obligations; noncurrent liabilities in the amount of \$224.0 million include noncurrent portions for compensated absences payable, general obligation bonds, lease obligations, and the aggregate net pension obligation have been recognized for the year ended June 30, 2016.
- The District currently has \$168.3 million outstanding related to the issuance of general obligation debt. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.
- As of June 30, 2016, the aggregate net pension obligation was \$52.6 million. The District has, therefore, recorded its proportionate share of the net pension obligation for CalSTRS and CalPERS.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented in the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the operating and nonoperating revenues earned, whether received or not by the District, the operating and nonoperating expenses incurred, whether paid or not by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations.

(Amounts in thousands)

	2016	2015	Change
Operating Revenues			
Tuition and fees	\$ 3,002	\$ 3,074	\$ (72)
Auxiliary sales and charges	3,679	2,981	698
Total Operating Revenues	<u>6,681</u>	<u>6,055</u>	<u>626</u>
Operating Expenses			
Salaries and benefits	57,102	55,199	1,903
Supplies and maintenance	22,812	19,469	3,343
Student financial aid	27,414	25,597	1,817
Depreciation	4,004	4,120	(116)
Total Operating Expenses	<u>111,332</u>	<u>104,385</u>	<u>6,947</u>
Loss on Operations	<u>(104,651)</u>	<u>(98,330)</u>	<u>(6,321)</u>
Nonoperating Revenues			
State apportionments	40,368	37,289	3,079
Property taxes	9,172	7,262	1,910
Other taxes	6,368	7,454	(1,086)
Grants and contracts	42,737	39,353	3,384
Other nonoperating revenues (expenses)	1,382	1,048	334
Total Nonoperating Revenue	<u>100,027</u>	<u>92,406</u>	<u>7,621</u>
Other Revenues and Losses			
Local capital income	1,706	1,546	160
Loss on disposal of capital assets	-	(352)	352
Total Other Revenues and Losses	<u>1,706</u>	<u>1,194</u>	<u>512</u>
Change in Net Position	<u>\$ (2,918)</u>	<u>\$ (4,730)</u>	<u>\$ 1,812</u>

The schedule above has been prepared from the Statement of Revenues, Expenses, and Changes in Net Position. State general apportionment, while budgeted for operations, is considered nonoperating revenues, according to the Governmental Accounting Standards Board's prescribed reporting format.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The District's Unrestricted General Fund expenses increased by approximately \$2.7 million in comparison to the prior fiscal year. The increase in revenue in comparison to the prior fiscal year contributed to the 8.7 percent reserve.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for operating revenues and to fulfill the mission of the District. Nonoperating revenues are those received or pledged for which goods and services are not provided; for example, State appropriations are nonoperating revenue because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

- Tuition and fees are generated by the resident, non-resident, and foreign fees paid by the students attending Victor Valley Community College, including fees such as parking fees, community services classes, and other related fees.
- Non-capital grants and contracts are primarily those received from Federal and State sources and used in the instructional program.
- State apportionment is generated based on the workload measures reported to the State by the District. The District has experienced a 4.7 percent FTES increases in the 2015-2016 fiscal year.
- Local property taxes are received through the Auditor-Controller's Office for San Bernardino and Los Angeles Counties. The amount received for property taxes is deducted from the total State general apportionment amount calculated by the State for the District.

Total operating expenses increased by \$6.9 million. The increase is comprised of three parts:

1. Salaries and benefits increased by \$1.9 million;
2. Supplies, maintenance, and other operating expenses increased by \$3.3 million;
3. Payments to students increased by \$1.8 million.

Operating expenses are 51.3 percent related to personnel costs. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, utilities, and depreciation expense.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for nonoperating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

(Amounts in thousands)

	2016	2015	Change
Cash Provided by (Used in)			
Operating activities	\$ (96,102)	\$ (88,089)	\$ (8,013)
Non-capital financing activities	99,960	95,193	4,767
Capital financing activities	(2,605)	(8,724)	6,119
Investing activities	2,476	2,427	49
Net Change in Cash	3,729	807	2,922
Cash, Beginning of Year	73,312	72,505	807
Cash, End of Year	<u>\$ 77,041</u>	<u>\$ 73,312</u>	<u>\$ 3,729</u>

The primary operating activities contributing to cash flow are student tuition and fees, while the primary operating activity using cash flow throughout the year is the payment of salaries and benefits.

Even though State apportionment, property taxes, Federal, State, and local grants and contracts are the primary source of non-capital related revenue (and cash flow), GASB accounting standards require that these sources of revenue be shown as nonoperating revenue, since they come from general resources of the Federal and State government and not from the primary users of the college's programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

Cash flow used in operating activities increased by \$8.0 million during fiscal year 2015-2016.

Property tax revenue, State apportionment, and grants and contracts account for approximately 92 percent of the non-capital financing activities.

The primary use included in capital and related financing activities is the purchase of capital assets (building improvements, construction in progress, equipment, etc.).

Cash from investing activities is mainly interest earned on cash in bank and cash invested through the San Bernardino County Investment Pool and the Guaranteed Investment Contract (GIC) with SunAmerica Annuity and Life Assurance Company.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Functional Expenses Classification

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:

(Amounts in thousands)

	Salaries	Employee Benefits	Supplies, Material, and Other Expenses and Services	Equipment, Maintenance, and Repairs	Student Aid	Depreciation	Total
Instructional activities	\$ 23,862	\$ 7,923	\$ 1,518	\$ 500	\$ -	\$ 1,688	\$ 35,491
Academic support	2,695	909	582	37	-	212	4,435
Student services	5,643	1,917	6,210	868	-	735	15,373
Plant operations and maintenance	1,881	918	2,790	39	-	283	5,911
Instructional support services	6,138	3,877	5,553	952	-	830	17,350
Community services and economic development	261	38	86	2	-	19	406
Ancillary services and auxiliary operations	729	311	2,653	16	-	186	3,895
Student Aid	-	-	-	-	27,414	-	27,414
Physical property and related acquisitions	-	-	-	1,006	-	51	1,057
Total	\$ 41,209	\$ 15,893	\$ 19,392	\$ 3,420	\$ 27,414	\$ 4,004	\$ 111,332

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These activities are excluded from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Capital Assets

At June 30, 2016, the District had total capital assets of \$190.3 million consisting of land, buildings and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of \$58.8 million.

Capital additions consist primarily of replacement, renovation, and new construction of facilities, as well as significant investments in equipment, including information technology. Current year additions were funded with a combination of special categorical, unrestricted general fund dollars, and capital outlay appropriations.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

(Amounts in thousands)

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Land and construction in progress	\$ 24,949	\$ 2,233	\$ 13,814	\$ 13,368
Buildings and improvements	148,928	13,847	-	162,775
Furniture and equipment	13,470	691	6	14,155
Subtotal	187,347	16,771	13,820	190,298
Accumulated depreciation	(54,837)	(4,004)	6	(58,835)
	<u>\$ 132,510</u>	<u>\$ 12,767</u>	<u>\$ 13,814</u>	<u>\$ 131,463</u>

We present more detailed information about our capital assets in Note 7 to the financial statements.

Debt

At June 30, 2016, the District had \$227.8 million in total debt. The District was successful in passing a bond measure before the voters in November 2008. The general obligation bond was used in part to retire the outstanding certificates of participation debt.

(Amounts in thousands)

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
General obligation bonds	\$ 152,184	\$ 113,647	\$ 97,551	\$ 168,280
Compensated absences	1,558	20	-	1,578
Supplemental employee retirement plan	465	-	465	-
Capital leases	5,758	-	325	5,433
Net pension liability	38,563	13,995	-	52,558
Total Long-Term Debt	<u>\$ 198,528</u>	<u>\$ 127,662</u>	<u>\$ 98,341</u>	<u>\$ 227,849</u>
Amount due within one year				<u>\$ 3,870</u>

We present more detailed information about our debt in Note 11 to the financial statements.

BUDGETARY HIGHLIGHTS

At the time the 2015-2016 budget was developed, the following assumptions were made:

- The 2015-2016 State Cost of Living Allowance (COLA) increase was budgeted at 1.02 percent.
- The District budgeted for a new ongoing allocation from the State for a Base Allocation increase estimated at \$2 million.
- The District budgeted \$8 million for estimated Education Protection Account (EPA) funding.
- The District targeted an increase to 9,426 Full-Time Equivalent Students served.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- The District also budgeted an estimated \$5 million from a one-time State allocation for outstanding Mandated Cost reimbursement.
- The full-time Faculty Obligation Number was estimated at 118. The District therefore budgeted for five new full-time faculty hires to meet this obligation. In addition, the State allocated funds for hiring additional full-time faculty and the District budgeted for 16 faculty to meet this obligation.
- The District's budget was balanced without the need to use a portion of the 2014-2015 unrestricted ending balance funds.

ECONOMIC FACTORS

- The financial position of the District is closely tied to that of the State of California. The District receives over 70 percent of its combined General Fund revenues through State apportionments, local property taxes including redevelopment agency allocations, and the Education Protection Account (EPA). These sources along with student paid enrollment fees essentially make up the District's general apportionment, the main funding support for California community colleges.
- There is a concern for community colleges in that the shift of State support to the EPA funding, which is temporarily keeping budgets afloat, partially expire in 2016 and fully expire in 2018, along with the dissolution of redevelopment agencies and the related pass through funding, creates uncertainty as to how these revenues will be made up in the future.
- Management continues to closely monitor the State budget information and operating costs of the District and will maintain a close watch over resources to ensure financial stability and retain reserve levels required by Board Policy and the State Chancellor's Office.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the: Office of Fiscal Services, Victor Valley Community College District, 18422 Bear Valley Road, Victorville, California 92395-5850.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2016**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 2,140,402
Investments - unrestricted	17,240,968
Investments - restricted	28,325,438
Accounts receivable	2,897,563
Student loans receivable	187,032
Due from fiduciary funds	8,714
Prepaid expenses	50,209
Inventories	925,079
Total Current Assets	<u>51,775,405</u>
Noncurrent Assets	
Investments - unrestricted	29,334,465
Net other postemployment benefits (OPEB) asset	7,496,738
Nondepreciable capital assets	13,368,112
Depreciable capital assets, net of depreciation	118,095,133
Total Noncurrent Assets	<u>168,294,448</u>
TOTAL ASSETS	<u>220,069,853</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	14,304,204
Deferred outflows of resources related to pensions	16,741,640
TOTAL DEFERRED INFLOW OF RESOURCES	<u>31,045,844</u>
LIABILITIES	
Current Liabilities	
Accounts payable	8,578,707
Accrued interest payable	1,090,797
Due to fiduciary funds	4,153
Unearned revenue	8,134,311
Bonds payable - current portion	3,515,000
Lease obligations - current portion	354,682
Total Current Liabilities	<u>21,677,650</u>
Noncurrent Liabilities	
Compensated absences payable - noncurrent portion	1,577,826
Bonds payable - noncurrent portion	156,943,482
Bond premium	7,821,308
Lease obligations - noncurrent portion	5,078,490
Aggregate net pension obligation	52,557,727
Total Noncurrent Liabilities	<u>223,978,833</u>
TOTAL LIABILITIES	<u>245,656,483</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	11,404,627
NET POSITION	
Net investment in capital assets	7,902,098
Restricted for:	
Debt service	7,068,238
Capital projects	5,692,142
Unrestricted	(26,607,891)
TOTAL NET POSITION	<u>\$ (5,945,413)</u>

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2016**

OPERATING REVENUES	
Student Tuition and Fees	\$ 12,024,459
Less: Scholarship discount and allowance	(9,022,302)
Net tuition and fees	<u>3,002,157</u>
Auxiliary Enterprise Sales and Charges	
Bookstore	3,176,739
Cafeteria	241,542
Other Operating Revenues	260,865
TOTAL OPERATING REVENUES	<u><u>6,681,303</u></u>
OPERATING EXPENSES	
Salaries	41,209,089
Employee benefits	15,893,374
Supplies, materials, and other operating expenses and services	19,392,352
Student financial aid	27,413,961
Equipment, maintenance, and repairs	3,419,469
Depreciation	4,003,984
TOTAL OPERATING EXPENSES	<u><u>111,332,229</u></u>
OPERATING LOSS	<u><u>(104,650,926)</u></u>
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	40,367,737
Local property taxes, levied for general purposes	9,172,302
Taxes levied for other specific purposes	6,367,858
Federal grants	24,497,681
State grants	18,239,013
State taxes and other revenues	7,204,853
Investment income	2,523,059
Interest expense on capital related debt	(6,931,591)
Investment income on capital asset-related debt, net	158,836
Transfer from fiduciary funds	110,246
Transfer to fiduciary funds	(4,300,000)
Other nonoperating revenue	2,616,496
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>100,026,490</u></u>
LOSS BEFORE OTHER REVENUES	<u><u>(4,624,436)</u></u>
OTHER REVENUES	
Local revenues, capital	<u>1,706,008</u>
CHANGE IN NET POSITION	(2,918,428)
NET POSITION, BEGINNING OF YEAR	(3,026,985)
NET POSITION, END OF YEAR	<u><u>\$ (5,945,413)</u></u>

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 3,588,398
Payments to vendors for supplies and services	(19,137,406)
Payments to or on behalf of employees	(56,818,057)
Payments to students for scholarships and grants	(27,413,961)
Auxiliary enterprise sales and charges	3,679,146
Net Cash Flows From Operating Activities	<u>(96,101,880)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments	40,118,616
Grant and contracts	42,736,694
Property taxes - non-debt related	9,141,800
State taxes and other apportionments	7,145,796
Other nonoperating	817,094
Net Cash Flows From Non-Capital Financing Activities	<u>99,960,000</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(4,201,980)
State revenue, capital projects	1,706,008
Deferred costs on issuance of refunding debt	(14,304,204)
Property taxes - related to capital debt	6,367,858
Proceeds from capital debt	113,647,574
Principal paid on capital debt	(97,876,695)
Interest paid on capital debt	(8,102,211)
Interest received on capital asset-related debt	158,836
Net Cash Flows From Capital Financing Activities	<u>(2,604,814)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	<u>2,476,423</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS

3,729,729

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

73,311,544

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 77,041,273

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016**

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

Operating Loss	<u>\$ (104,650,926)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation expense	4,003,984
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows	
Receivables	84,584
Inventories	258,879
Prepaid expenses and other assets	416,388
Net OPEB asset	(195,147)
Accounts payable and accrued liabilities	1,759,955
Unearned revenue	1,468,332
Deferred outflows related to pensions	(12,801,836)
Compensated absences, net pension obligation, and supplemental employee retirement plan	13,550,028
Deferred inflows related to pensions	3,879
Total Adjustments	<u>8,549,046</u>
Net Cash Flows From Operating Activities	<u><u>\$ (96,101,880)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 2,140,402
Cash in county treasury	45,566,406
SunAmerica Annuity and Life Assurance Company	29,334,465
Total Cash and Cash Equivalents	<u><u>\$ 77,041,273</u></u>

NONCASH TRANSACTIONS

Board of governors fee waivers	\$ 9,022,302
On behalf payments for benefits	1,503,812
	<u><u>\$ 10,526,114</u></u>

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2016

	<u>STRS/PERS Trust</u>	<u>Other Trusts</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 466,990
Investments	4,315,792	48,862
Accounts receivable	-	54,209
Due from primary government	-	4,153
Total Assets	<u>4,315,792</u>	<u>574,214</u>
LIABILITIES		
Accounts payable	-	55,398
Due to primary government	-	8,714
Total Liabilities	<u>-</u>	<u>64,112</u>
NET POSITION		
Reserved	4,315,792	-
Unreserved	-	510,102
Total Net Position	<u>\$ 4,315,792</u>	<u>\$ 510,102</u>

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	STRS/PERS Trust	Other Trusts
ADDITIONS		
Local revenues	\$ 15,792	\$ 311,751
DEDUCTIONS		
Services and operating expenditures	-	165,498
OTHER FINANCING SOURCES (USES)		
Transfers from primary government	4,300,000	-
Transfers to primary government	-	(110,246)
Total Other Financing Sources (Uses)	<u>4,300,000</u>	<u>(110,246)</u>
Change in Net Position	4,315,792	36,007
Net Position - Beginning	-	474,095
Net Position - Ending	<u>\$ 4,315,792</u>	<u>\$ 510,102</u>

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - ORGANIZATION

Victor Valley Community College District (the District) was established in 1961 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected five-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Funds, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operated one community college located in Victorville, California. 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 provision 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. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District. The District identified no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2016, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Restricted Assets

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District 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, 2016.

Inventories

Stores inventories consist primarily of bookstore merchandise held for resale to the students and faculty of the college. Inventories are stated at the lower of cost, or market on an average basis. The cost is recorded as an expense as the inventory is consumed.

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.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 39 years; site improvements, 20 years; machinery and equipment, 5 to 20 years; vehicles, 8 years.

Accrued Liabilities and Long-Term Obligations

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

Debt Issuance Costs, Premiums, and Discounts

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

Deferred Charge on Refunding

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Compensated Absences

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire.

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 revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year, and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Noncurrent Liabilities

Noncurrent liabilities include bonds, compensated absences, aggregate net pension obligation, and capital lease obligations, with maturities greater than one year.

Net Position

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$12,760,380 of restricted net position.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

State Apportionments

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

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Bernardino 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 2008 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, SEOG Grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Estimates

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

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 68, and Amendments to Certain Provisions of GASB Statements 67 and 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 provisions in this Statement, effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of GASB Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of GASB Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures, for both the qualifying external investment pools and their participants, include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

This Statement replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, No. 43, and No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

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

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

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

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

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

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

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

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

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 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.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

General Authorizations

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

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

Authorized Under Debt Agreements

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Summary of Deposits and Investments

Deposits and investments of the Primary Government as of June 30, 2016, consist of the following:

Primary government	\$ 77,041,273
Fiduciary funds	4,831,644
Total Deposits and Investments	<u>\$ 81,872,917</u>
Cash on hand and in banks	\$ 2,482,142
Cash in revolving	125,250
Investments	79,265,525
Total Deposits and Investments	<u>\$ 81,872,917</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the San Bernardino County Investment Pool and SunAmerica Annuity and Life Assurance Company.

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

Investment Type	Fair Value	Weighted Average Days to Maturity
San Bernardino County Investment Pool	\$ 45,805,076	311
SunAmerica Annuity and Life Assurance Company	29,334,465	N/A
Public Agency Retirement Services (PARS)	4,315,792	N/A
Total	<u>\$ 79,455,333</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the San Bernardino County Investment Pool was rated AAA/V1 by Fitch Ratings. The District's investments with SunAmerica Annuity and Life Assurance Company and PARS are not required to be rated, nor have they been rated as of June 30, 2016.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are the Guaranteed Investment Contract (GIC) with SunAmerica Annuity and Life Assurance Company which represents 37 percent and investments with PARS which represents five percent.

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, 2016, the District had \$706,227 in deposits exposed to custodial credit risk due to balances not insured by the Federal Deposit Insurance Corporation (FDIC) or a collateral contract.

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.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Uncategorized - Investments in the San Bernardino 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.

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Fair Value	Level 1 Inputs	Level 3 Inputs	Uncategorized
San Bernardino County Investment Pool	\$ 45,805,076	\$ -	\$ -	\$ 45,805,076
SunAmerica Annuity and Life Assurance Company	29,334,465	-	29,334,465	-
Public Agency Retirement Services (PARS)	4,315,792	4,315,792	-	-
Total	\$ 79,455,333	\$ 4,315,792	\$ 29,334,465	\$ 45,805,076

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

NOTE 5 - ACCOUNTS RECEIVABLE

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

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	\$ 239,829	\$ -
State Government		
Apportionment	249,121	-
Categorical aid	153,059	-
Lottery	1,003,388	-
Local Sources		
Interest	80,861	-
Property taxes	409,964	-
Victor Valley College Foundation	43,441	-
Other local sources	717,900	54,209
Total	\$ 2,897,563	\$ 54,209
Student receivables	\$ 187,032	\$ -

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 6 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) ASSET

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The postemployment benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, vision, and life insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 47 retirees and beneficiaries currently receiving benefits, and 294 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2015-2016, the District contributed \$806,021 to the Plan. The entire amount was used for current premiums.

Annual OPEB Cost and Net OPEB Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB asset to the Plan:

Annual required contribution	\$ 644,720
Decrease in value of irrevocable trust assets	(33,846)
Annual OPEB cost (expense)	<u>610,874</u>
Contributions made	<u>(806,021)</u>
Increase in net OPEB asset	195,147
Net OPEB asset, beginning of year	<u>7,301,591</u>
Net OPEB asset, end of year	<u><u>\$ 7,496,738</u></u>

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Asset
2014	\$ 501,378	\$ 636,953	127%	\$ 6,977,359
2015	303,354	627,586	207%	7,301,591
2016	610,874	806,021	132%	7,496,738

Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	\$ 11,174,445
Actuarial Value of Plan Assets	10,564,403
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 610,042</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	95%
Covered Payroll	<u>N/A</u>
UAAL as a Percentage of Covered Payroll	<u>N/A</u>

The above noted actuarial accrued liability was based on the July 1, 2016, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2016, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 6.5 percent investment rate of return, based on the Plan being funded through Futuris. The cost trend rate used was four percent. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period at June 30, 2016, was 15 years. At June 30, 2016, the irrevocable trust with Futuris held assets in the amount of \$10,564,403.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Capital Assets Not Being Depreciated				
Land	\$ 11,883,784	\$ -	\$ -	\$ 11,883,784
Construction in progress	13,065,029	2,232,618	13,813,319	1,484,328
Total Capital Assets Not Being Depreciated	<u>24,948,813</u>	<u>2,232,618</u>	<u>13,813,319</u>	<u>13,368,112</u>
Capital Assets Being Depreciated				
Land improvements	15,040,106	-	-	15,040,106
Buildings and improvements	133,888,180	13,846,471	-	147,734,651
Furniture and equipment	13,469,670	690,998	5,421	14,155,247
Total Capital Assets Being Depreciated	<u>162,397,956</u>	<u>14,537,469</u>	<u>5,421</u>	<u>176,930,004</u>
Total Capital Assets	<u>187,346,769</u>	<u>16,770,087</u>	<u>13,818,740</u>	<u>190,298,116</u>
Less Accumulated Depreciation				
Land improvements	5,781,517	661,104	-	6,442,621
Buildings and improvements	37,782,434	2,868,590	-	40,651,024
Furniture and equipment	11,272,357	474,290	5,421	11,741,226
Less Accumulated Depreciation	<u>54,836,308</u>	<u>4,003,984</u>	<u>5,421</u>	<u>58,834,871</u>
Net Capital Assets	<u>\$ 132,510,461</u>	<u>\$ 12,766,103</u>	<u>\$ 13,813,319</u>	<u>\$ 131,463,245</u>

Depreciation expense for the year was \$4,003,984.

Interest expense on capital related debt for the year ended June 30, 2016, was \$7,212,399. Of this amount, \$280,808 was capitalized in the current year.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Accrued payroll	\$ 2,261,193	\$ -
Construction	872,358	-
State categorical	528,360	-
Other	4,916,796	55,398
Total	<u>\$ 8,578,707</u>	<u>\$ 55,398</u>

NOTE 9 - UNEARNED REVENUE

Unearned revenue consisted of the following:

	<u>Primary Government</u>
Federal categorical	\$ 6,671
State categorical	5,934,647
RDA deferral	408,240
Student fees	656,093
Other local	1,128,660
Total	<u>\$ 8,134,311</u>

NOTE 10 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the primary government and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2016, the amounts owed between the primary government and the fiduciary funds were \$8,714 and \$4,153, respectively.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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 2016 fiscal year, the amount transferred to the primary government from the fiduciary funds amounted to \$110,246. The amount transferred to the fiduciary funds from the primary government amounted to \$4,300,000.

NOTE 11 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2016 fiscal year consisted of the following:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
Bonds and Notes Payable					
2008 General obligation bonds, Series A	\$ 52,408,158	\$ 431,600	\$ 47,335,000	\$ 5,504,758	\$ 1,425,000
2008 General obligation bonds, Series B	12,000,000	-	12,000,000	-	-
2008 General obligation bonds, Series C	86,267,143	3,751,581	36,630,000	53,388,724	600,000
2016 General obligation refunding bonds, Series A	-	50,840,000	-	50,840,000	920,000
2016 General obligation refunding bonds, Series B	-	38,960,000	-	38,960,000	570,000
2016 General obligation refunding bonds, Series C	-	11,765,000	-	11,765,000	-
Premium on issuance	1,509,130	7,899,393	1,587,215	7,821,308	-
Total Bonds and Notes Payable	152,184,431	113,647,574	97,552,215	168,279,790	3,515,000
Other Liabilities					
Compensated absences	1,558,044	19,782	-	1,577,826	-
Supplemental Employee Retirement Plan	464,606	-	464,606	-	-
Capital leases	5,757,652	-	324,480	5,433,172	354,682
Aggregate net pension liability	38,562,875	13,994,852	-	52,557,727	-
Total Other Liabilities	46,343,177	14,014,634	789,086	59,568,725	354,682
Total Long-Term Debt	\$ 198,527,608	\$ 127,662,208	\$ 98,341,301	\$ 227,848,515	\$ 3,869,682

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. Capital lease payments and the Supplemental Employee Retirement Plan will be made by the Unrestricted General Fund. The compensated absences and aggregate net pension obligation will be paid by the fund for which the employee worked.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds		Bonds Outstanding June 30, 2016
				Outstanding July 1, 2015	Issued	Accreted Interest	Redeemed	
2009	08/01/19	3.00% - 5.375%	\$ 54,004,963	\$ 52,408,158	\$ -	\$ 431,600	\$ 47,335,000	\$ 5,504,758
2009	08/01/33	6.67%	12,000,000	12,000,000	-	-	12,000,000	-
2009	06/01/49	3.17% - 7.20%	70,017,065	86,267,143	-	3,751,581	36,630,000	53,388,724
2016	08/01/44	2.00%-5.00%	50,840,000	-	50,840,000	-	-	50,840,000
2016	08/01/31	0.778% - 3.498%	38,960,000	-	38,960,000	-	-	38,960,000
2016	08/01/33	4.00%	11,765,000	-	11,765,000	-	-	11,765,000
				<u>\$ 150,675,301</u>	<u>\$ 101,565,000</u>	<u>\$ 4,183,181</u>	<u>\$ 95,965,000</u>	<u>\$ 160,458,482</u>

2008 General Obligation Bonds, Series A

In June 2009, the District issued \$54,004,963 of the Victor Valley Community College District, 2008 General Obligation Bonds, Series A. The bonds issued included \$27,635,000 of current interest serial bonds, \$24,440,000 of current interest term bonds, and \$1,929,963 of capital appreciation bonds, with the capital appreciation bonds accreting to \$5,410,000. The bonds have a final maturity to occur on August 1, 2019, with interest rates from 3.00 percent to 5.375 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization and equipping of certain District property and facilities, as well as to refund all of the Victor Valley Community College District, 1997 variable rate certificates of participation. At June 30, 2016, the principal balance outstanding was \$5,504,758.

2008 General Obligation Bonds – Build America Bonds, Series B

In June 2009, the District issued \$12,000,000 of the Victor Valley Community College District, 2008 General Obligation Bonds - Build America Bonds, Series B. The bonds have a final maturity to occur on August 1, 2033, with an interest rate of 6.67 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization and equipping of certain District property and facilities, as well as to refund all of the Victor Valley Community College District, 1997 variable rate certificates of participation. A portion of the proceeds of the 2016 General Obligation Refunding Bonds, Series C were deposited in an escrow fund to defease all of the 2008 General Obligation Bonds - Build America Bonds, Series B and to provide for their prepayment.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2008 General Obligation Bonds, Series C

In June 2009, the District issued \$70,017,065 of the Victor Valley Community College District, 2008 General Obligation Bonds, Series C. The bonds issued included \$16,135,000 of current interest serial bonds, \$20,000,000 of current interest term bonds, \$6,600,646 of capital appreciation serial bonds, with the capital appreciation bonds accreting to \$27,000,000, \$21,177,379 of capital appreciation term bonds, with capital appreciation bonds accreting to \$248,200,000, and \$6,104,040 of convertible capital appreciation term bonds, with a conversion value of \$12,070,000. The bonds have a final maturity to occur on June 1, 2049, with interest rates from 3.17 percent to 7.20 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization and equipping of certain District property and facilities. At June 30, 2016, the principal balance outstanding was \$53,338,724.

2016 General Obligation Refunding Bonds, Series A

During April 2016, the District issued the 2016 General Obligation Refunding Bonds, Series A, in the amount of \$50,840,000. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the Statement of Net Position and are amortized to interest expense over the life of the liability. The refunding resulted in an economic savings of \$11,223,802 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.68 percent.

The bonds have a final maturity to occur on August 1, 2044, with interest rates from 2.00 to 5.00 percent. The net proceeds of \$57,241,998 (representing the principal amount of \$50,840,000 plus premium on issuance of \$6,401,998) from the issuance were used to advance refund a portion of the District's outstanding 2008 General Obligation Bonds, Series A, advance refund a portion of the District's outstanding 2008 General Obligation Bonds, Series C, and pay the costs associated with the issuance of the Series A refunding bonds. At June 30, 2016, the principal balance outstanding was \$50,840,000. Unamortized premium received on issuance of the bonds amounted to \$6,345,510 as of June 30, 2016.

2016 General Obligation Refunding Bonds, Series B

During April 2016, the District issued the 2016 General Obligation Refunding Bonds, Series B, in the amount of \$38,960,000. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the Statement of Net Position and are amortized to interest expense over the life of the liability. The refunding resulted in an economic savings of \$1,598,211 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.68 percent.

The bonds have a final maturity to occur on August 1, 2031, with interest rates from 0.778 to 3.498 percent. The net proceeds of \$38,960,000 from the issuance were used to advance refund a portion of the District's outstanding 2008 General Obligation Bonds, Series A, and pay the costs associated with the issuance of the Series B refunding bonds. At June 30, 2016, the principal balance outstanding was \$38,960,000.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2016 General Obligation Refunding Bonds, Series C

During April 2016, the District issued the 2016 General Obligation Refunding Bonds, Series C, in the amount of \$11,765,000. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the Statement of Net Position and are amortized to interest expense over the life of the liability. The refunding resulted in an economic savings of \$843,376 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.68 percent.

The bonds have a final maturity to occur on August 1, 2033, with an interest rate of 4.00 percent. The net proceeds of \$13,262,395 (representing the principal amount of \$11,765,000 plus premium on issuance of \$1,497,395) from the issuance were used to advance refund, on a crossover basis, the outstanding balance of the District's outstanding 2008 General Obligation Bonds, Series B, and pay the costs associated with the issuance of the Series C refunding bonds. At June 30, 2016, the principal balance outstanding was \$11,765,000. Unamortized premium received on issuance of the bonds amounted to \$1,475,798 as of June 30, 2016.

The 2008 General Obligation Bonds, Series A mature through 2020 as follows:

Fiscal Year	Principal (Including Accreted Interest to Date)	Accreted Interest	Current Interest	Total
2017	\$ 1,425,000	\$ -	\$ 29,500	\$ 1,454,500
2018	1,386,753	253,247	-	1,640,000
2019	1,361,019	438,981	-	1,800,000
2020	1,331,986	638,014	-	1,970,000
Total	\$ 5,504,758	\$ 1,330,242	\$ 29,500	\$ 6,864,500

The 2008 General Obligation Bonds, Series C mature through 2049 as follows:

Fiscal Year	Principal (Including Accreted Interest to Date)	Accreted Interest	Current Interest	Total
2017	\$ 567,367	\$ 32,633	\$ -	\$ 600,000
2018	591,907	108,093	-	700,000
2019	608,677	196,323	-	805,000
2020	618,662	296,338	414,906	1,329,906
2021	123,944	81,056	829,813	1,034,813
2022-2026	1,224,936	1,720,064	4,149,063	7,094,063
2027-2031	2,365,100	4,224,900	4,149,063	10,739,063
2032-2036	9,990,413	24,424,097	4,149,063	38,563,573
2037-2041	16,980,110	30,192,465	1,244,716	48,417,291
2042-2046	10,986,531	62,308,424	-	73,294,955
2047-2049	9,331,077	78,075,225	-	87,406,302
Total	\$ 53,388,724	\$ 201,659,618	\$ 14,936,624	\$ 269,984,966

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The 2016 General Obligation Refunding Bonds, Series A mature through 2045 as follows:

Fiscal Year	Principal	Current Interest	Total
2017	\$ 920,000	\$ 1,562,564	\$ 2,482,564
2018	-	2,108,800	2,108,800
2019	-	2,108,800	2,108,800
2020	-	2,108,800	2,108,800
2021	675,000	2,091,925	2,766,925
2022-2026	4,720,000	9,834,000	14,554,000
2027-2031	7,605,000	8,320,875	15,925,875
2032-2036	930,000	7,216,600	8,146,600
2037-2041	20,130,000	5,758,000	25,888,000
2042-2045	15,860,000	2,220,400	18,080,400
Total	\$ 50,840,000	\$ 43,330,764	\$ 94,170,764

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

Fiscal Year	Principal	Current Interest	Total
2017	\$ 570,000	\$ 797,857	\$ 1,367,857
2018	540,000	1,075,527	1,615,527
2019	545,000	1,069,673	1,614,673
2020	550,000	1,063,023	1,613,023
2021	2,110,000	1,041,701	3,151,701
2022-2026	13,280,000	4,442,100	17,722,100
2027-2031	19,275,000	2,119,605	21,394,605
2032	2,090,000	36,554	2,126,554
Total	\$ 38,960,000	\$ 11,646,040	\$ 50,606,040

The 2016 General Obligation Refunding Bonds, Series C mature through 2034 as follows:

Fiscal Year	Principal	Current Interest	Total
2017	\$ -	\$ 347,721	\$ 347,721
2018	-	470,600	470,600
2019	-	470,600	470,600
2020	-	470,600	470,600
2021	-	470,600	470,600
2022-2026	-	2,353,000	2,353,000
2027-2031	-	2,353,000	2,353,000
2032-2034	11,765,000	595,300	12,360,300
Total	\$ 11,765,000	\$ 7,531,421	\$ 19,296,421

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Compensated Absences

At June 30, 2016, the liability for compensated absences was \$1,577,826.

Supplemental Employee Retirement Plan (SERP)

The District has entered into an agreement to provide certain benefits to employees participating in the early retirement incentive program. As of June 30, 2016, this obligation was paid in full.

Capital Leases

The District has entered into agreements to lease equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with option to purchase is summarized below:

	<u>Equipment</u>
Balance, July 1, 2015	\$ 7,472,533
Payments	(579,996)
Balance, June 30, 2016	<u>\$ 6,892,537</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payment</u>
2017	\$ 594,989
2018	610,431
2019	626,336
2020	642,718
2021	659,593
2022-2026	3,569,287
2027	189,183
Total	<u>6,892,537</u>
Less: Amount Representing Interest	(1,459,365)
Present Value of Minimum Lease Payments	<u>\$ 5,433,172</u>

The equipment purchased through capital lease arrangements has been capitalized and is being depreciated over the estimated useful lives.

Equipment	\$ 6,880,519
Less: Accumulated Depreciation	(6,192,468)
Total	<u>\$ 688,051</u>

Amortization of the leased equipment under capital lease is included with depreciation expense.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Aggregate Net Pension Obligation

At June 30, 2016, the liability for the aggregate net pension obligation amounted to \$52,557,727. See Note 13 for additional information.

NOTE 12 - RISK MANAGEMENT

Property and Liability Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for property with coverages of \$250,000,000 per occurrence, subject to various policy limits. The District also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence, all subject to various deductibles.

Joint Powers Authority Risk Pools

During fiscal year ended June 30, 2016, the District contracted with the Statewide Association of Community Colleges Joint Powers Authority (JPA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2015-2016, the District participated in the Protected Insurance Program for Schools and Colleges (PIPS) Joint Powers Authority (JPA), an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

Employee Medical Benefits

The District has contracted with Southern California Schools Employee Benefit Association (SCSEBA) to provide employee medical benefits. SCSEBA is a shared risk pool comprised of community colleges and school districts in Southern California. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of the claim's flow. The Board of Directors has the right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2016, the District reported the net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 34,850,800	\$ 11,248,998	\$ 6,169,188	\$ 3,880,826
CalPERS	17,706,927	5,492,642	5,235,439	1,419,495
Total	<u>\$ 52,557,727</u>	<u>\$ 16,741,640</u>	<u>\$ 11,404,627</u>	<u>\$ 5,300,321</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, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	9.20%	8.56%
Required employee contribution rate	10.73%	10.73%
Required employer contribution rate	7.12589%	7.12589%
Required State contribution rate		

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, 2016, are presented above, and the District's total contributions were \$2,530,938.

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

At June 30, 2016, 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	\$ 34,850,800
State's proportionate share of net pension liability associated with the District	18,432,232
Total	<u>\$ 53,283,032</u>

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The net pension liability was measured as of June 30, 2015. 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, 2015 and June 30, 2014, was 0.0518 percent and 0.0422 percent, respectively, resulting in a net increase in the proportionate share of 0.0096 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$3,880,826. In addition, the District recognized pension expense and revenue of \$1,427,783 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,530,938	\$ -
Net change in proportionate share of net pension liability	5,972,144	-
Difference between projected and actual earnings on pension plan investments	2,745,916	5,586,823
Differences between expected and actual experience in the measurement of the total pension liability	-	582,365
Total	<u>\$ 11,248,998</u>	<u>\$ 6,169,188</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (1,175,796)
2018	(1,175,795)
2019	(1,175,795)
2020	686,479
Total	<u>\$ (2,840,907)</u>

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 898,296
2018	898,296
2019	898,296
2020	898,297
2021	898,297
Thereafter	898,297
Total	\$ 5,389,779

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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 52,621,996
Current discount rate (7.60%)	34,850,800
1% increase (8.60%)	20,081,503

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2014, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, are presented above, and the total District contributions were \$1,572,491.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$17,706,927. The net pension liability was measured as of June 30, 2015. 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, 2015 and June 30, 2014, was 0.1201 percent and 0.1225 percent, respectively, resulting in a net decrease in the proportionate share of 0.0024 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,419,495. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,572,491	\$ -
Net change in proportionate share of net pension liability	-	633,001
Difference between projected and actual earnings on pension plan investments	2,908,174	3,514,474
Differences between expected and actual experience in the measurement of the total pension liability	1,011,977	-
Changes of assumptions	-	1,087,964
Total	<u>\$ 5,492,642</u>	<u>\$ 5,235,439</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.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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
2017	\$ (444,448)
2018	(444,448)
2019	(444,448)
2020	727,044
Total	<u>\$ (606,300)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the 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 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (301,483)
2018	(301,483)
2019	(106,022)
Total	<u>\$ (708,988)</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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and services

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.65%)	\$ 28,819,499
Current discount rate (7.65%)	17,706,927
1% increase (8.65%)	8,466,081

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

STRS/PERS Irrevocable Trust

During the 2015-2016 fiscal year, the District established an irrevocable trust with Public Agency Retirement Services (PARS), for the purpose of funding future employer contributions associated with the CalSTRS and CalPERS pension plans. District contribution rates for these plans are expected to rise significantly through the 2020-2021 fiscal year. Funds deposited into this trust are not considered "plan assets" for GASB 68 reporting, and therefore are not netted against the net pension liability shown on the Statement of Net Position. Instead, the activity within this trust is recorded as a fiduciary fund of the District. For the 2015-2016 fiscal year the District contributed \$4,300,000 into the trust, with total assets of \$4,315,792 as of June 30, 2016.

PARS-ARS (Public Agency Retirement System Alternate Retirement System)

The District contributes to the Public Agency Retirement System Alternate Retirement System (PARS-ARS), a defined contribution retirement plan administered by the District. PARS-ARS employs a corporate Trustee and Trust Administrator who receives and invests contributions to the Plan and manages the assets of the Trust.

Active plan members contribute 3.75 percent of their salary and the District contributes the equivalent 3.75 percent. Interest earnings on the plan investments minus administrative costs are credited to the members accounts monthly and accumulate tax-free until withdrawal.

Tax Deferred Annuity

The District provides a Tax Shelter Annuity Plan for all eligible employees, as defined in the Plan documents. Participants may contribute a portion of their earnings under a 403(b) plan, which has a maximum deferral limit of \$15,000 if under age 50, and \$20,000 if over age 50. The District will not make matching contributions to the Plan on behalf of participants. However, the District absorbs some costs associated with the administration of the Plan.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2016, which amounted to \$1,503,812 (7.12589 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, 2016. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

The District is a member of the Statewide Association of Community Colleges and Southern California Schools Employee Benefit Association (SCSEBA) Joint Powers Authority JPAs. The District pays annual premiums for its property liability, excess liability, and health coverage. The relationship between the District and the JPAs 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.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

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, 2016.

Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

<u>CAPITAL PROJECT</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Vocational Education Complex	<u>\$ 5,444,753</u>	January 30, 2017

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

REQUIRED SUPPLEMENTARY INFORMATION

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Method Used (b)*	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
May 1, 2012	\$ 7,801,056	\$ 8,137,692	\$ 336,636	96%	N/A	N/A
September 1, 2014	10,130,872	9,168,360	(962,512)	110%	N/A	N/A
July 1, 2016	10,564,403	11,174,445	610,042	95%	N/A	N/A

*Entry age normal cost method.

See accompanying note to required supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0518%</u>	<u>0.0422%</u>
District's proportionate share of the net pension liability	\$ 34,850,800	\$ 24,659,591
State's proportionate share of the net pension liability associated with the District	<u>18,432,232</u>	<u>14,890,525</u>
Total	<u>\$ 53,283,032</u>	<u>\$ 39,550,116</u>
District's covered - employee payroll	<u>\$ 26,023,288</u>	<u>\$ 21,103,504</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>133.92%</u>	<u>116.85%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.1201%</u>	<u>0.1225%</u>
District's proportionate share of the net pension liability	<u>\$ 17,706,927</u>	<u>\$ 13,903,284</u>
District's covered - employee payroll	<u>\$ 13,839,728</u>	<u>\$ 12,939,488</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>127.94%</u>	<u>107.45%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	2016	2015
CalSTRS		
Contractually required contribution	\$ 2,530,938	\$ 2,310,868
Contributions in relation to the contractually required contribution	2,530,938	2,310,868
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 23,587,493</u>	<u>\$ 26,023,288</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
CalPERS		
Contractually required contribution	\$ 1,572,491	\$ 1,628,936
Contributions in relation to the contractually required contribution	1,572,491	1,628,936
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 13,269,966</u>	<u>\$ 13,839,728</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

Schedule of District Contributions

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.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2016

Victor Valley Community College is a public community college operated under the Education Code of the State of California. The District was established by authority of the voters who created the District in 1960. The District began classes in 1961. The present campus was started in 1963 and opened its doors to students in 1965. The District encompasses an area of approximately 2,200 square miles and includes the communities of Adelanto, Apple Valley, Cedar Springs, Helendale, Hesperia, Lucerne Valley, Oro Grande, Phelan, Wrightwood, Los Flores, and Victorville. 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>
John Pinkerton	President	December 2016
Brandon Wood	Vice President	December 2018
Marianne Tortorici	Clerk	December 2018
Dennis Henderson	Member	December 2018
Joseph W. Brady	Member	December 2016

ADMINISTRATION

Roger Wagner	Superintendent/President
Tracey L. Richardson	Vice President, Administrative Services
Peter Maphumulo	Executive Vice President, Instruction and Student Services

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
Passed through Chaffey Community College District Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	15C215	\$ 39,944
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program (PELL)	84.063		22,789,967
PELL Administrative Allowance	84.063		33,615
Federal Supplemental Education Opportunity Grants (FSEOG)	84.007		281,200
FSEOG Administrative Allowance	84.007		12,932
Federal Work-Study Program (FWS)	84.033		320,775
FWS Administrative Allowance	84.033		16,093
Total Student Financial Assistance Cluster			<u>23,454,582</u>
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334A		199,019
Upward Bound	84.047A		314,480
Passed through California Community College Chancellor's Office			
Career and Technical Education, Title I-C	84.048	15-C01-066	399,913
CTE Transitions	84.048A	15-112-990	43,466
Total U.S. Department of Education			<u>24,411,460</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Educational Assistance	64.028		<u>1,325</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Community College Chancellor's Office			
Temporary Assistance for Needy Families (TANF)	93.558	[1]	116,422
Total Expenditures of Federal Programs			<u><u>\$ 24,569,151</u></u>

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

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Program	Program Entitlements		
	Current Year	Prior Year Carryover	Total Entitlement
AB86 Adult Education Consortium	\$ -	\$ 216,090	\$ 216,090
AB104 Adult Education Consortium	1,420,428	-	1,420,428
Basic Skills	235,377	190,067	425,444
Cal Grants	1,521,450	-	1,521,450
CalWORKS	505,862	-	505,862
CARE Program	345,290	-	345,290
Child Development - Child Development Careers Program	-	11,143	11,143
Child Development - State Pre-School	132,275	-	132,275
CTE Enhancement-60%	-	184,206	184,206
CTE Enhancement-40%	130,721	-	130,721
Deputy Sector Navigator	300,000	145,304	445,304
Disabled Students Program And Services	533,894	1,306	535,200
Extended Opportunity Program and Services (EOPS)	1,020,128	-	1,020,128
Full-Time Student Success ACA	41,667	-	41,667
Full-Time Student Success Grant	420,030	-	420,030
Lottery	439,060	22,674	461,734
Nursing Enrollment Growth and Retention	197,987	-	197,987
Nursing Assessment, Remediation and Retention	57,000	-	57,000
Physical Plant/Instructional Support/Library Materials	1,175,780	145,765	1,321,545
Proposition 39 Clean Energy Project	27,419	-	27,419
Proposition 39 Clean Air Project	259,561	-	259,561
RAMP UP - CCPT	5,230,202	2,953,491	8,183,693
Staff Diversity	5,373	8,575	13,948
Student Equity	1,458,474	739,962	2,198,436
Student Financial Assistance Programs (BFAP)	505,253	-	505,253
Student Success, Credit	2,252,154	735,429	2,987,583
Student Success, Noncredit	21,356	-	21,356
Song Brown Nursing Grant #4	-	38,128	38,128
Total State Programs			

See accompanying notes to supplementary information.

Program Revenues

Cash Received	Accounts Receivable (Payable)	Unearned Revenue	Total Revenue	Program Expenditures
\$ 215,341	\$ (749)	\$ -	\$ 214,592	\$ 185,808
1,420,428	-	400,151	1,020,277	1,020,277
425,444	-	86,868	338,576	338,576
1,521,450	(70,843)	-	1,450,607	1,450,607
505,862	(5,456)	-	500,406	500,406
345,290	-	-	345,290	345,290
3,684	-	3,684	-	-
132,275	-	-	132,275	132,275
158,915	16,928	-	175,843	175,843
117,649	(32,769)	-	84,880	84,880
265,304	119,997	9,839	375,462	375,462
535,200	-	-	535,200	535,200
1,020,128	-	-	1,020,128	1,020,128
41,667	(10,494)	-	31,173	31,173
420,030	-	-	420,030	340,200
22,674	439,060	-	461,734	461,734
194,586	(6,237)	-	188,349	188,349
40,002	16,134	-	56,136	56,136
1,321,545	-	634,632	686,913	686,913
27,415	-	-	27,415	27,415
259,561	-	-	259,561	259,561
8,183,693	-	2,182,110	6,001,583	5,999,834
13,948	-	6,772	7,176	7,176
2,198,436	(80,799)	873,192	1,244,445	1,244,445
505,253	-	-	505,253	505,253
2,987,583	(321,013)	1,720,264	946,306	946,306
21,356	-	-	21,356	21,356
38,128	-	17,135	20,993	20,993
<u>\$ 22,942,847</u>	<u>\$ 63,759</u>	<u>\$ 5,934,647</u>	<u>\$ 17,071,959</u>	<u>\$ 16,961,596</u>

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT
 FOR THE YEAR ENDED JUNE 30, 2016**

CATEGORIES	<u>*Revised Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession			
1. Noncredit	7.08	-	7.08
2. Credit	480.61	-	480.61
B. Summer Intersession			
1. Noncredit	-	-	-
2. Credit	336.93	-	336.93
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	4,917.82	-	4,917.82
(b) Daily Census Contact Hours	964.47	-	964.47
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	63.80	-	63.80
(b) Credit	563.31	-	563.31
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,262.46	-	1,262.46
(b) Daily Census Contact Hours	616.07	-	616.07
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>9,212.55</u>	<u>-</u>	<u>9,212.55</u>
E. In-Service Training Courses (FTES)	-	-	-
H. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	60.32	-	60.32
2. Credit	1,661.10	-	1,661.10

*Annual report revised as of October 17, 2016.

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 843262 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2016

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 9,991,921	\$ -	\$ 9,991,921	\$ 10,033,424	\$ -	\$ 10,033,424
Other	1300	11,509,445	-	11,509,445	11,514,467	-	11,514,467
Total Instructional Salaries		21,501,366	-	21,501,366	21,547,891	-	21,547,891
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	2,880,872	-	2,880,872
Other	1400	-	-	-	533,655	-	533,655
Total Noninstructional Salaries		-	-	-	3,414,527	-	3,414,527
Total Academic Salaries		21,501,366	-	21,501,366	24,962,418	-	24,962,418
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	9,222,899	-	9,222,899
Other	2300	-	-	-	652,042	-	652,042
Total Noninstructional Salaries		-	-	-	9,874,941	-	9,874,941
Instructional Aides							
Regular Status	2200	1,454,698	-	1,454,698	1,679,365	-	1,679,365
Other	2400	272,260	-	272,260	291,175	-	291,175
Total Instructional Aides		1,726,958	-	1,726,958	1,970,540	-	1,970,540
Total Classified Salaries		1,726,958	-	1,726,958	11,845,481	-	11,845,481
Employee Benefits	3000	5,561,072	-	5,561,072	13,428,667	-	13,428,667
Supplies and Material	4000	-	-	-	590,616	-	590,616
Other Operating Expenses	5000	289,270	-	289,270	5,903,877	-	5,903,877
Equipment Replacement	6420	-	-	-	752	-	752
Total Expenditures Prior to Exclusions		29,078,666	-	29,078,666	56,731,811	-	56,731,811

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 843262 (50 PERCENT LAW) CALCULATION, CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2016

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 261,978	\$ -	\$ 261,978	\$ 261,978	\$ -	\$ 261,978
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	50,061	-	50,061
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	540,776	-	540,776
Objects to Exclude							
Rents and Leases	5060	-	-	-	487,732	-	487,732
Lottery Expenditures							
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 843262 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 1,271,037	\$ -	\$ 1,271,037
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		261,978	-	261,978	2,611,584	-	2,611,584
Total for ECS 84362, 50 Percent Law		\$ 28,816,688	\$ -	\$ 28,816,688	\$ 54,120,227	\$ -	\$ 54,120,227
Percent of CEE (Instructional Salary Cost/Total CEE)		53.25%		53.25%	100.00%		100.00%
50% of Current Expense of Education					\$ 27,060,114		\$ 27,060,114

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

	<u>Restricted General Fund</u>	<u>Capital Outlay Projects</u>
June 30, 2016, Annual Financial and Budget Report (CCFS-311)		
Reported Fund Balance	\$ 231,847	\$ 5,828,379
Adjustments to Fund Balance		
Unearned Revenue	259,561	-
Accounts Payable	<u>(596,156)</u>	<u>(136,237)</u>
Net Adjustments	<u>(336,595)</u>	<u>(136,237)</u>
June 30, 2016, Audited Fund Balance	<u>\$ (104,748)</u>	<u>\$ 5,692,142</u>

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

Activity Classification	Object Code	Unrestricted			
EPA Proceeds:	8630				\$ 7,993,118
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 7,993,118	\$ -	\$ -	\$ 7,993,118
Total Expenditures for EPA		\$ 7,993,118	\$ -	\$ -	\$ 7,993,118
Revenues Less Expenditures					\$ -

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016**

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

Total Fund Balance:

General Fund, unrestricted	\$ 5,210,034	
General Fund, restricted	(104,748)	
Special Revenue Funds	29,670,491	
Capital Project Funds	19,060,751	
Debt Service Funds	8,159,035	
Enterprise Funds	1,784,699	
Internal Service Funds	526,767	
Fiduciary Funds	<u>4,911,564</u>	
Total Fund Balance - All District Funds		\$ 69,218,593

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:	190,298,116	
Accumulated depreciation is:	<u>(58,834,871)</u>	131,463,245
Amounts held in trust on behalf of others (Trust and Agency Funds)		(4,825,894)

Recognizing the OPEB asset resulting from the difference between annual OPEB cost on the accrual basis and the OPEB contributions in the governmental funds. 7,496,738

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. 4,103,429

The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits. 5,339,143

The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. (3,447,207)

The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. 429,612

The changes of assumptions are not recognized as an expenditure under the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (1,087,964)

Governmental funds report deferred cost of refunding associated with the issuance of debt when first issued, whereas the amounts are deferred and amortized as an adjustment to interest expense. 14,304,204

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION, CONTINUED
JUNE 30, 2016**

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.		\$	(1,090,797)
Long-term obligations at year end consist of:			
General obligation bonds	\$ 137,979,480		
Premium on bonds	7,821,308		
Capital leases payable	5,433,172		
Compensated absences	1,577,826		
Aggregate net pension obligation	52,557,727		
In addition, the District issued "capital appreciation" general obligation bonds. The accretion of interest on those bonds to date is the following:	22,479,002	(227,848,515)	
Total Net Position		<u>\$</u>	<u>(5,945,413)</u>

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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 Pell Grant and Supplemental Education Opportunity Program funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	CFDA Number	Amount
Total Federal Revenues from Statement of Revenues, Expenses, and Changes in Net Position:		\$ 24,497,681
Federal Pell Grant Program (PELL)	84.063	70,270
Federal Supplemental Education Opportunity Grants (FSEOG)	84.007	1,200
Total Expenditures of Federal Awards		<u>\$ 24,569,151</u>

Schedule of Expenditures of State Awards

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

Schedule of Workload Measures for State General Apportionment

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

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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

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

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

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

Proposition 30 Education Protection Act (EPA) Expenditure Report

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

Reconciliation of Governmental Funds to the Statement of Net Position

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

INDEPENDENT AUDITOR'S REPORTS



**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
Victor Valley Community College District
Victorville, 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 Victor Valley Community College District (the District) as of and for the year ended June 30, 2016, 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 5, 2016.

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.

Vauinek, Time, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



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

Board of Trustees
Victor Valley Community College District
Victorville, California

Report on Compliance for Each Major Federal Program

We have audited Victor Valley 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, 2016. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

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.

Vavinek, Time, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Victor Valley Community College District
Victorville, California

Report on State Compliance

We have audited Victor Valley Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws and regulations, and the terms and conditions identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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 programs noted below that were audited for the year ended June 30, 2016.

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	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 429	Student Success and Support Program (SSSP)
Section 430	Schedule Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 439	Proposition 39 Clean Energy
Section 440	Intersession Extension Programs
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged (TBA) Hours
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

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

The District does not charge a student health fee; therefore, the compliance tests within the Student Fees - Health Fees and Use of Health Fee Funds section were not applicable.

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

The District reports no attendance within classes subject to the TBA Hours; therefore, the compliance tests within this section were not applicable.

The District did not receive Prop 1D State Bond Funded Projects funding during the year; therefore, the compliance tests within this section were not applicable.

Vavinek, Time, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

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>
84.007, 84.033, 84.063	Student Financial Assistance Cluster

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

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

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.