NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Orange County Community College District
Anaheim, 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 North Orange County 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.

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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 18, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 64, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 65, and the Schedule of District Contributions on page 66 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 6, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 6, 2016

NORTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT

KASHMIRA VYAS, CPA
Interim District Director
Fiscal Affairs

FRED WILLIAMS
Vice Chancellor
Finance & Facilities

CHERYL A. MARSHALL, Ed.D.
Chancellor

Introduction

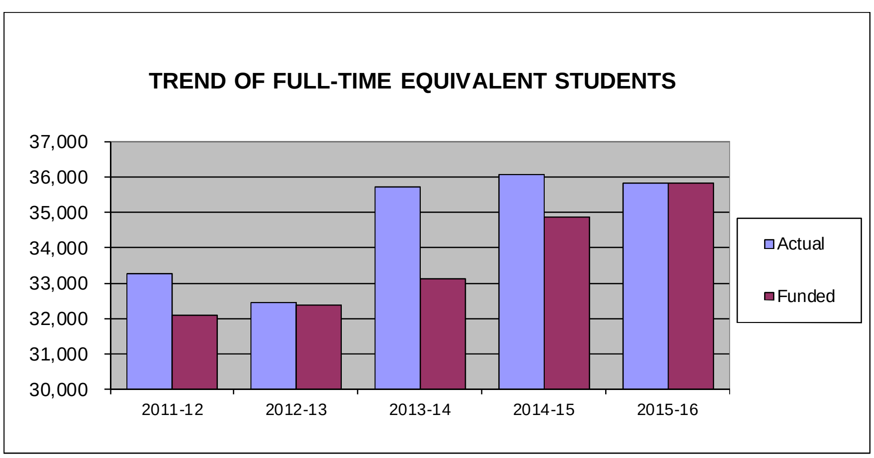
The following discussion and analysis provides an overview of the financial position and activities of the North Orange County Community College District (the District) for the year ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District is reporting according to the standards of Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35 using the Business-Type Activity (BTA) model. The California Community Colleges Chancellor's Office, through its Fiscal Standards and Accountability Committee, recommends that all community college districts use the reporting standards under the BTA model.

North Orange County Community College District includes two comprehensive community colleges and a large School of Continuing Education. The mission of the District is to serve and enrich our diverse communities by providing a comprehensive program of educational opportunities that are accessible, academically excellent, and committed to student success and lifelong learning. Cypress College and Fullerton College offer associate degrees, vocational certificates, and transfer education, as well as developmental instruction and a broad array of specialized training. The School of Continuing Education offers non-college credit programs including high school diploma completion, basic skills, vocational certificates, and self-development courses. Specific activities in both the college and School of Continuing Education will be directed toward economic development within the community.

Selected Highlights

- During 2015-2016, total Full-Time Equivalent Students (FTES) decreased by approximately 393 or 1.09 percent. A large part of our overall decline is attributable to the correction of a reporting error in our noncredit program. However, even with this decrease, the amount of funded FTES increased by 2.96 percent, or 1,027 from the prior year. While credit and non-credit FTES, along with a per college and per center allocation are the basis for the District's State apportionment, State-established growth caps provide a ceiling on the level of FTES funding possible. Historically, the District has exceeded its growth cap. However, we are seeing a softening of demand that has decreased growth.



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- On March 5, 2002, the voters of the District approved a $239,000,000 bond measure with $139,000,000 (Series A) issued in May 2002 and $99,999,001 (Series B) issued in December 2003. In April 2005, the District issued $164,935,000 General Obligation Refunding Bonds to advance refund and defease portions of the Series A and B bonds. The Refunding resulted in an additional $9.6 million in proceeds which was used to leverage an additional $87 million from State Facilities Bond monies to meet local match requirements for the Cypress College Humanities project and the Fullerton College Science Building and Technology Center projects. Twenty major projects were established to be undertaken with these bond proceeds that would provide better facilities for the students, faculty, and community. On January 24, 2013 the District issued $145,910,000 General Obligation Refunding Bonds to advance refund and defease a portion of the 2005 General Obligation Refunding Bond. The District completed the refunding to reduce its debt service payment over the next 11 years by $10,001,601. The District is completing the last of its projects to be funded by Measure X.

- The District's $574,000,000 Measure J Facilities Bond Measure was passed with over 55 percent of the votes. $100,000,000 (Series A) was issued in June 2016. For Measure J, the voters approved projects, primarily with a focus on supporting success for veterans as well as supporting facilities improvements that contribute to workforce development. With the approval of Measure J, the District continues to focus efforts on planning, in order to run an efficient and transparent bond program.

Financial Highlights

This section is to provide an overview of the District's financial activities. A comparative analysis is included in the Management's Discussion and Analysis using prior year information. Certain prior year amounts have been reclassified to follow current year classifications.

Financial Statement Presentation and Basis of Accounting

The District's financial report includes three financial statements: The Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position and the Statement of Cash Flows. Additional information regarding these financial statements is provided on the following pages.

The financial statements noted above are prepared in accordance with GASB Statements No. 34 and No. 35 that provide an entity-wide perspective. Therefore, the financial data presented in these financial statements is a combined total of all District funds including Student Financial Aid Programs, with inter-fund transactions eliminated.

Also, in accordance with GASB Statements No. 34 and No. 35, the financial statements have been prepared under the full accrual basis of accounting which requires that revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. A reconciliation between the fund balances reported on the June 30, 2016, Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles and the modified accrual basis of accounting, and the total net position recorded on the full accrual basis of accounting, is found on page 79 of the report.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position 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 method 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 (current and non-current), liabilities (current and non-current), and net position (assets minus liabilities).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the 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 position and their availability for expenditure by the District.

The difference between total assets, deferred outflows of resources and total liabilities and deferred inflows of resources (net position) is one indicator of the current financial condition of the District; another indicator is the change in net position which shows whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The Net Position is divided into three major categories. The first category, invested in capital assets, net of related debt, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net position; the net position is 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.

The Statement of Net Position as of June 30, 2016 and 2015, is summarized below.

	(in thousands) 2016	2015
ASSETS		
Current assets		
Cash and investments	$ 305,437	$ 158,558
Receivables	23,202	6,921
Inventory	817	586
Due from fiduciary funds	4,277	5,402
Other assets	222	118
Total current assets	333,955	171,585
Non-current assets		
Capital assets, net	401,912	404,004
TOTAL ASSETS	735,867	575,589
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	-	3,794
Deferred outflows of resources related to pensions	38,925	11,805
TOTAL DEFERRED OUTFLOWS OF RESOURCES	38,925	15,599
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	28,341	19,692
Unearned revenue	7,174	3,142
Due to fiduciary funds	34	3,658
Compensated absences - current portion	3,629	3,311
Long-term liabilities - current portion	31,280	15,475
Total current liabilities	70,458	45,278
Non-current liabilities		
Long-term liabilities less current portion	506,791	407,531
TOTAL LIABILITIES	577,249	452,809
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	42,029	41,536
NET POSITION		
Net investment in capital assets	228,430	195,507
Restricted	107,465	56,102
Unrestricted*	(180,381)	(154,766)
TOTAL NET POSITION	$ 155,514	$ 96,843

** Unrestricted Net Position is defined by GASB Statements No. 34 and No. 35 as those assets that do not have external legal restrictions against them, including any amounts designated by the Board of Trustees.*

- Cash and cash equivalents consist primarily of cash held in the General Fund ($64.3 million), Bond Fund ($103.9 million), Capital Outlay Fund ($56.8 million), and the Self Insurance Fund ($27.0 million). The increase of $146.9 million over the prior year is attributable to $100 million received into the Bond Fund for the Series A issuance for Measure J, $19.9 million in Mandated Block funds received, and $22.1 million in funds levied and held in the Bond Interest and Redemption Fund. The Cash Flow Statement included in these financial statements provides greater detail of the sources and uses of the District's cash during the 2015-2016 fiscal year.

- Accounts receivable activity consists mainly of receivables from Federal and State sources for grant and entitlement programs and receivables from local sources for all other purposes. This year, there is a significant increase in this account due to a delay in the District receiving funds associated with the Educational Revenue Account Fund (ERAF). Note 5 of these financial statements provides a summary of the accounts receivable balance.

- Inventory is primarily made up of merchandise held for sale in the bookstores located at Fullerton College and the School of Continuing Education.

- Due from fiduciary funds and Due to fiduciary funds consist of amounts due from/to the Associated Students Trust, Student Representation Fee, and Other Trust funds at Cypress College, Fullerton College, the School of Continuing Education, and the Retiree Benefits Fund.

- Other assets are made up of prepaid Bond issuance costs for the District's general obligation bond program which are being amortized over the term of the bond, and other prepaid expenses.

- Capital assets, net is primarily made up of the District's investments in land, buildings and building improvements, construction in progress, and vehicles, at historical cost and net of accumulated depreciation. Note 7 of these financial statements provides a summary of changes during the 2015-2016 fiscal year.

- Deferred outflow of resources represents a consumption of net assets that is applicable to a future reporting period. For example, prepaid items and deferred charges. In our instance, the deferred outflow associated with pension costs has increased significantly over the prior year. This is consistent with the increases in the STRS/PERS rates. (See Note 13).

- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2016. Also included are accrued liabilities for amounts due to or on behalf of employees for wages and benefits earned as of the end of the fiscal year, but paid out subsequent to June 30, 2016. The increase in this account is attributable to several items. This year, the District received monies associated with the VLFAA settlement which is being held pending determination by the Chancellor's Office of the amount that is to be returned for redistribution among other Districts. Additionally, a liability was established for apportionment amounts associated with downward adjustments in FTES that were identified by the District and a deferral of revenues associated with the RDA revenue shift that will be recognized in 2016-2017.

- Unearned revenues are those funds that are received, but not yet earned. They typically involve restricted State and Federal grants that are earned when spent and allow more than one year to expend the funds.

- Compensated absences are amounts accrued for accumulated, unpaid employee vacation benefits and load banking where eligible academic employees may teach extra courses in one period for exchange for time off in another period.

- The District has bonded debt issuances outstanding that amounts to $301.6 million. Additionally, the District issued Refunding Bonds on portions of two outstanding issues in April 2005 and issued Refunding Bonds on portions of the 2005 issuance in January 2013. The long-term debt balances include unamortized premiums and deferred charges on refunding related to the general obligation bond liability, compensated absences, and a net postemployment obligation for medical benefits for retirees, consistent with GASB Statement No. 45. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.

Statement of Revenues, Expenses, and Change in Net Position

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

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

The Statement of Revenues, Expenses, and Change in Net Position for the years ended June 30, 2016 and 2015, is summarized below:

	(in thousands) 2016	2015
Operating Revenues		
Net tuition and fees	$ 20,523	$ 20,108
Sales	5,349	5,228
Total operating revenues	25,872	25,336
Operating Expenses		
Salaries and benefits	194,040	181,838
Supplies, materials, depreciation, and other expenses	51,395	50,127
Student financial aid	58,723	56,059
Total operating expenses	304,158	288,024
Operating loss	(278,286)	(262,688)
Non-operating revenues (expenses)		
State apportionments, non-capital	82,713	83,437
Local property taxes	120,206	87,475
Grants and contracts, non-capital	93,953	86,390
State taxes and other revenues	29,427	8,478
Investment income	1,007	509
Other non-operating revenues (expenses), net	5,665	(7,153)
Total non-operating revenues (expenses)	332,971	259,136
Other revenues		
State revenue, capital	3,986	4,093
Change in net position	58,671	541
Net position, beginning of year	96,843	96,302
Net position, end of year	$ 155,514	$ 96,843

- Net tuition and fees are generated by the resident, non-resident, and foreign fees paid by students attending the District. These include fees paid for enrollment, health services, parking, community services classes, and other related fees. The increase in this account is associated with an increase in non-resident tuition, additional enrollment fees due to an increase in our credit FTES, and a decrease in the amount of BOG waivers.

- Sales are primarily related to the sale of merchandise in the Bookstores located at Fullerton College and the School of Continuing Education.

- Salaries and benefits comprise of 63.8 percent of total operating expenses from a District-wide, full-accrual perspective. In other words, these amounts include the activity from all District funds, not just the General Fund. Consequently, this percentage is lower than normally discussed when talking about the percentage of salaries as compared to total expenses since it is computed using all Capital Outlay and Bond Fund expenditures that are primarily capital outlay expenditures. Salaries and benefits in the General Fund make up 78.9 percent of total General Fund expenses as reflected on page 81 of this report. The increase in this account is due to a 3.0 percent salary increase for Faculty, Part-time and Classified staff and a 3.5 percent salary increase for Confidential, Management, and Executive Management staff. The costs of benefits have also been increasing, with medical costs and pension costs on the rise. There has also been an increase to the number of employees, in response to growth needs of the District.

- Other operating expenses consist of supplies, insurance, utilities, depreciation expense, other services, and capital outlay items below the capitalization threshold. The increase in this account is related to increased purchases of capital outlay items below our capitalization threshold.

- Student financial aid is made up of financial assistance payments made to students as part of the Student Financial Aid cluster of programs.

- The operating loss reported on the Statement of Revenues, Expenses, and Change in Net Position is related to the reporting requirements of GASB Statement No. 35 that identify transactions as either exchange or non-exchange. If a transaction is considered an exchange transaction, then the revenue is considered operating revenue. Conversely, if a transaction is deemed a non-exchange transaction, then the revenue is considered non-operating revenue. In our case, the revenues received from the State of California as apportionment and from local property taxes are deemed non-exchange transactions and consequently, non-operating revenues. Every community college district within the State of California will have a large operating loss due to this required reporting presentation.

- State apportionments, non-capital, local property taxes, and tuition and fees are all components of the community college apportionment funding model. The model is comprised of a base allocation, an amount per credit FTES, non-credit FTES, and an enhanced amount per qualifying non-credit FTES for career development and college preparation courses. Calculated apportionment increased by $23.0 million over the prior year. $12.6 million of the increase in apportionment is due to the State funding 1,464 FTES in 2015-2016 that was previously unfunded in 2014-2015 as well as a corresponding increase in rates. There were additional funds received for base funding ($8.3 million) and for full-time faculty hiring ($1.9 million). An important aspect of the community college apportionment funding model is the inverse relationship between State apportionment and local property taxes. Thus, our funding essentially comes from enrollment fees and local property taxes with the difference made up by State apportionment. This increase in apportionment was primarily funded by the increased amount from local property taxes.

- Local property taxes are received through the Auditor-Controller's Office for Orange and Los Angeles Counties. The amount received for property taxes is deducted from the total State apportionment amount for general revenue calculated by the State. The increase of $32.7 million is attributable to the resurgence of the housing market resulting in increased property tax revenue of $17.1 million, which includes $13.8 million more in ERAF, and is also comprised of $15.6 million more in local revenues collected in the Bond Interest and Redemption Fund.

- Grants and contracts, non-capital are primarily those received from Federal and State sources and used in the instructional program such as the Student Financial Aid cluster of programs, Vocational Education Programs, Disabled Student Programs and Services (DSPS), and Extended Opportunity Programs and Services (EOPS). Pages 70 through 72 of the supplementary information section of this report provide a complete listing of Federal and State non-capital grants and contracts.

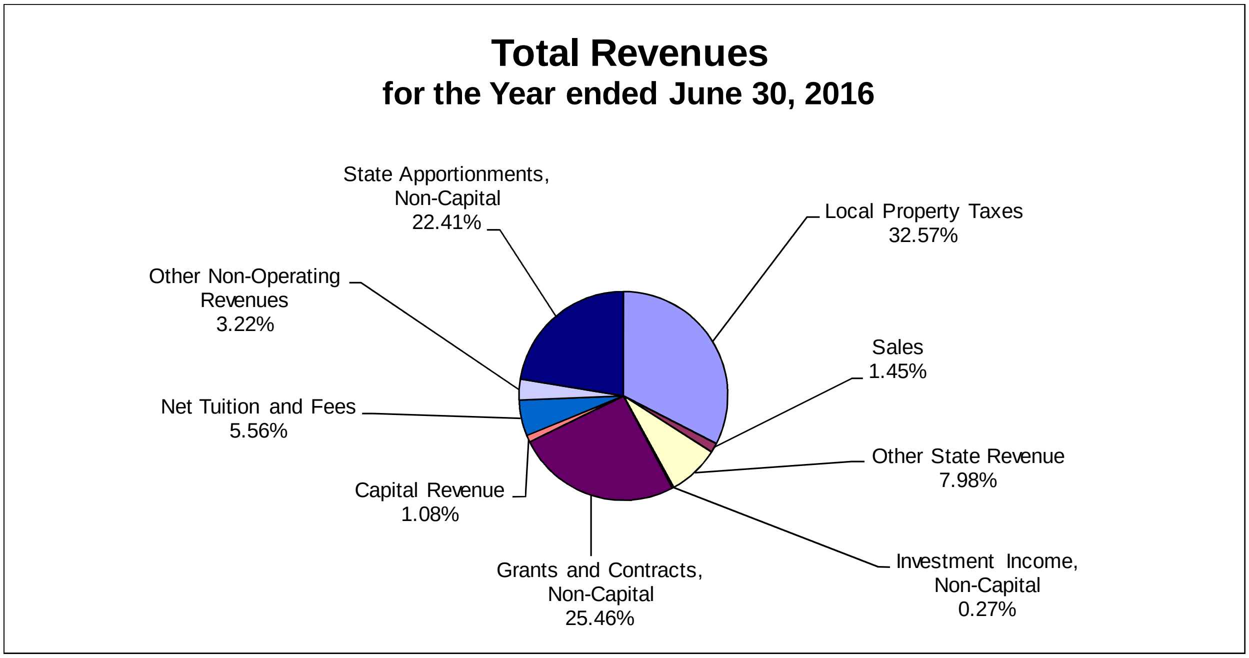
- State taxes and other revenues are mainly comprised of State mandated cost revenues and Lottery revenues. The increase in this account is primarily due to the receipt of an estimated $2.5 million more in Lottery funds from the State than the previous year, as well as receiving an estimated $18.4 million more in mandated revenues.

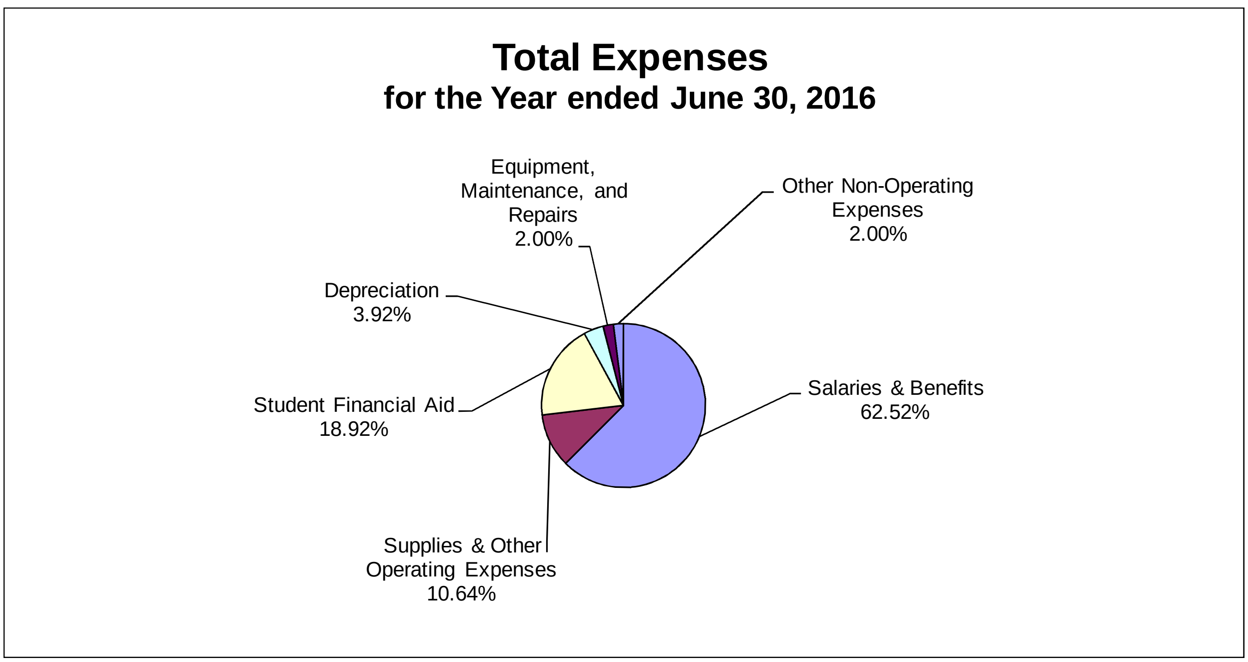
- Investment income, net increase due to an increase in interest rates and overall increase in cash balances.

- Other non-operating revenues (expenses), net are comprised of the amounts recorded in the Bond Interest and Redemption Fund that was established for the General Obligation Bond, accrued interest on the general obligation bonds, other local revenues, local revenues designated for capital purposes, capital outlay fees received from non-resident students, transfers to and from the fiduciary funds, and an amount recorded for payments made by the State of California to STRS on the District's behalf in the amount of $4.9 million. The increase in this account is due to $5.7 million in proceeds associated with our bond issuance. Also contributing to this overall increase is the change in the way we directed contributions to the Retiree Benefits Fund this year. This year contributions were made directly to the newly established Irrevocable Retiree Benefits Trust. In the prior year, we reflected $6.4 million more in transfers to the fiduciary funds associated primarily with the retiree benefits fund.

- State revenues, capital relate to projects for capital outlay. The decrease in this account is mainly due to the completion in the prior year of capital outlay projects that had received State funding.

- Functional expenses, which show expenditures by activity such as instructional activities, academic support, student services, and other activities are included in Note 15 of the financial statements.





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 non-operating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities and 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 Change in Net Position.

A summarized Statement of Cash Flows for the years ended June 30, 2016 and 2015, is presented below:

	(in thousands) 2016	2015
Cash Provided By (Used in)		
Operating activities	$ (272,440)	$ (243,595)
Non-capital financing activities	288,778	274,233
Capital and related financing activities	129,535	2,942
Investing activities	1,006	509
Net change in cash and cash equivalents	146,879	34,089
Cash balance, beginning of year	158,558	124,469
Cash balance, end of year	$ 305,437	$ 158,558

- Operating activities mainly consist of cash receipts from student tuition and cash payments for salaries, benefits, supplies, other operating expenses, utilities, insurance, and other items related to the instructional program.

- Non-capital financing activities are primarily comprised of State apportionment, property taxes, and Federal, State and local grants for other than capital purposes. State apportionments and property taxes received account for 58.4 percent of the total cash provided by non-capital financing activities. Additionally, cash received from non-capital related grants and contracts accounts for 38.7 percent of the total cash provided by non-capital financing activities.

- Capital financing activities are mostly made up of the purchase or sale of capital assets, principal and interest payments on any debt issued and proceeds received from any new debt issuances, and cash sources or uses from Federal, State, and local grants for capital purposes. The increase in cash receipts in this category is primarily activity related to Measure J bond issuance. $100,000,000 was issued as series A bonds. Additionally, property taxes were collected by the County in anticipation of this issuance during the year and in compliance with the voter-approved measure.

- The cash from investing activities is interest earned on cash in banks, and on cash invested through the Orange County Investment Pool. The increase in cash received from investing activities is due to the increase in interest rates.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the District had $401.9 million invested in net capital assets. Total capital assets of $561.1 million consist of land, buildings and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of $159.1 million over the years they have been in service. During 2015-2016, $2.5 million of building and improvement projects completed construction. In addition, $4.3 million of construction in progress occurred during 2015-2016. Depreciation expense of $12.2 million was recorded for the fiscal year.

Capital additions primarily comprise replacement, renovation, and new construction. As the District nears completion on its current capital construction program, an inverse relationship exists between the Buildings and improvements and Construction in progress accounts. As more projects are completed, their accumulated expenses are reclassified from Construction in progress to Buildings and improvements. During 2015-2016, capital additions of completed construction projects included roof repair projects, phase II of the pool heater replacement, and the lighting retrofit of the parking garage at Fullerton College, laser leveling of the soccer field at Cypress College, and replacement of the storm drain pump and restoration of the power plant at the Anaheim Campus.

Note 7 to the financial statements provides additional information on capital assets. A summary of capital assets, net of depreciation, is presented below:

	(in thousands)	
	2016	**2015**
Land and improvements	$ 19,770	$ 16,999
Buildings and improvements	369,841	378,075
Equipment	7,754	6,190
Construction in progress	4,547	2,740
Net capital assets	$ 401,912	$ 404,004

Debt Administration

At June 30, 2016, the District had $541.7 million in debt primarily made up of $307.3 million from general obligation bonds; $5.1 million from Self-Insurance claims payable; $7.6 million from compensated absences payable; $57.6 million as the net OPEB obligation which represents the cumulative difference between the District's actuarially determined Annual Required Contribution and the amount the District made in contributions for postemployment medical benefit premium costs, and $164.1 million as the aggregate net pension obligation which represents the proportionate share of net pension liability of CalSTRS and CalPERS based on GASB Statements No. 68 and No. 71. (See Note 13.)

The general obligation bonds were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities, and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. The District's bond rating for its most recent issues was upgraded to AA+.

As reflected in the $57.6 million net OPEB obligation, these financial statements include a liability for retiree benefits, in accordance with GASB Statement No. 45, which requires districts to recognize an expense on their financial statements for the sum of ongoing annual out-of-pocket retiree benefit costs, plus an amortized annual actuarially determined amount necessary to recognize the entire unfunded obligation over a period not to exceed 30 years. Based on an actuarial study dated October 2014, the District's actuarially determined unfunded liability was projected at $153.4 million. In 2016, an Irrevocable Retiree Benefit Trust was established and the District paid $10 million into the Trust. These funds are being counted against our unfunded liability. As of June 30, 2016, the District had an additional $70.6 million set aside for retiree health benefits. This amount is not currently held in an irrevocable trust, thus it cannot be accounted against our unfunded liability.

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

	(in thousands) 2016	2015
Long-term obligations		
General obligation bonds	$ 307,335	$ 213,793
Claims payable	5,072	5,033
Compensated absences	7,576	7,609
Net OPEB obligation	57,602	60,557
Aggregate net pension obligation	164,115	139,325
Total long-term obligations	541,700	426,317
Less current portion	(34,909)	(18,786)
Long-term portion	$ 506,791	$ 407,531

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 excluded from these financial statements since these resources 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.

Economic Factors that May Affect the Future

As of June 30, 2016, the District ended the fiscal year with a surplus due to prudent fiscal management in previous years as well as a large amount of one-time funds from the State's continued upward trend in 2015-2016. The 2016-2017 State Budget is the 4th year of anticipated prosperous times for California. The adopted budget contains $121 billion in General Fund expenditures, up $6 billion from 2015-2016 levels, and no balance remains on the prior deferrals for the community college system. Based on the information currently available, the District believes it is in good financial shape for the 2016-2017 fiscal year.

As a reminder, the 0.25 percent sales tax increase from Proposition 30 will be phasing out on December 31, 2016. The personal income tax increase for high earners was also scheduled to phase out, in 2018, but voters approved an extension through 2030, which will help offset the immediate impact of the sales tax phase-out.

There are several unknown factors that could still negatively affect the 2016-2017 budget including the State's estimate of revenues that would be collected from the tax increase for the Education Protection Funds (EPA), student enrollment fees collected, and the amount of redevelopment funds flowing to schools.

There is currently a $42 million statutory shortfall in the 2016-2017 apportionment funding report for community colleges that impact the District by $1.4 million. The economic position of the District is closely tied to that of the State of California and until the overall economy regains its strength, the California State budget, and thus the California Community College's management will continue to closely monitor the State budget information and will maintain a close watch over resources to sustain our ability to react to internal and external issues.

Also of significant concern is the increase of the employer contribution rate for STRS and PERS as part of the State's adopted STRS and PERS Funding Plan. STRS and PERS employer contribution rate will increase every year through 2020-2021. This plan will cumulatively increase the District's STRS and PERS employer contribution rate from 12.58 percent and 13.888 percent in 2016-2017 to 19.1 percent and 19.8 percent in 2020-2021 respectively, which will have an estimated cumulative impact of $12.3 million for the District. We continue to set the base allocation augmentation to help offset the impact of these continued planned rate increases.

The District's negotiated multi-year salary agreements will result in a 3.0 percent increase in salaries, plus COLA, if any, in the upcoming year. Associated benefits will increase correspondingly in addition to continued anticipated increases in health benefit costs. Additionally, the District has committed $3.3 million to fund $1,250 per eligible employee for an off-schedule payment to help employees defray rising benefit costs. The District continues to focus on how to bring salaries and benefits in alignment with comparable districts responsibly.

Other than the concerns discussed above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the Vice Chancellor, Finance and Facilities, North Orange County Community College District, 1830 West Romneya Drive, Anaheim, CA 92801.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2016

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	$ 6,507,294
Cash and cash equivalents - restricted	1,342,279
Investments - unrestricted	91,098,849
Investments - restricted	206,488,913
Accounts receivable	22,478,864
Student loans receivable	722,910
Due from fiduciary funds	4,276,824
Prepaid expenses	222,146
Stores inventories	816,977
Total Current Assets	333,955,056
Noncurrent Assets	
Nondepreciable capital assets	21,312,974
Depreciable capital assets, net of depreciation	380,598,817
Total Noncurrent Assets	401,911,791
TOTAL ASSETS	735,866,847
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	38,924,928
LIABILITIES	
Current Liabilities	
Accounts payable	27,259,448
Accrued interest payable	1,081,112
Due to fiduciary funds	34,139
Unearned revenue	7,173,481
Compensated absences	3,629,300
Bonds payable	31,280,000
Total Current Liabilities	70,457,480
Noncurrent Liabilities	
Compensated absences	3,947,262
Claims liability	5,072,415
Bonds payable	276,055,150
Net other postemployment benefits (OPEB) obligation	57,601,901
Aggregate net pension obligation	164,114,545
Total Noncurrent Liabilities	506,791,273
TOTAL LIABILITIES	577,248,753
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	42,028,566
NET POSITION	
Net investment in capital assets	228,430,281
Restricted for:	
Debt service	39,664,559
Capital projects	61,755,905
Educational programs	6,045,138
Unrestricted	(180,381,427)
TOTAL NET POSITION	$ 155,514,456

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

OPERATING REVENUES	
Student Tuition and Fees	$ 44,595,102
Less: Scholarship discounts and allowances	(24,071,926)
Net tuition and fees	20,523,176
Auxiliary enterprise sales and charges	5,349,194
TOTAL OPERATING REVENUES	25,872,370
OPERATING EXPENSES	
Salaries	149,272,760
Employee benefits	44,767,699
Supplies, materials, and other operating expenses and services	33,015,207
Student financial aid	58,722,983
Equipment, maintenance, and repairs	6,210,559
Depreciation	12,168,861
TOTAL OPERATING EXPENSES	304,158,069
OPERATING LOSS	(278,285,699)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	82,713,570
Local property taxes, levied for general purposes	85,804,887
Taxes levied for other specific purposes	34,401,175
Federal grants and contracts, noncapital	58,328,932
State grants and contracts, noncapital	35,623,750
State taxes and other revenues	29,426,746
Investment income	1,006,789
Interest expense on capital related debt	(6,016,619)
Investment income on capital asset-related debt, net	68,915
Transfers to fiduciary funds	(196,802)
Other nonoperating revenues	11,809,639
TOTAL NONOPERATING REVENUES (EXPENSES)	332,970,982
INCOME BEFORE OTHER REVENUES	54,685,283
OTHER REVENUES	
State revenues, capital	3,986,023
CHANGE IN NET POSITION	58,671,306
NET POSITION, BEGINNING OF YEAR	96,843,150
NET POSITION, END OF YEAR	$ 155,514,456

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 20,547,959
Auxiliary sales	5,349,194
Payments to or on behalf of employees	(200,013,573)
Payments to vendors for supplies and services	(39,601,030)
Payments to students for scholarships and grants	(58,722,983)
Net Cash Flows From Operating Activities	(272,440,433)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	82,713,570
Property taxes - nondebt related	85,804,887
Grants and contracts	111,764,576
State taxes and other revenues	190,230
Other nonoperating revenues	8,305,199
Net Cash Flows From Noncapital Financing Activities	288,778,462
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	26,638
State revenue, capital projects	3,986,023
Property taxes - related to capital debt	34,401,175
Proceeds from capital debt	109,016,832
Principal paid on capital debt	(15,475,000)
Interest paid on capital debt	(2,489,652)
Interest received on capital asset-related debt	68,915
Net Cash Flows From Capital Financing Activities	129,534,931
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	1,006,789
NET CHANGE IN CASH AND CASH EQUIVALENTS	146,879,749
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	158,557,586
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 305,437,335

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

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	$ (278,285,699)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	12,168,861
Changes in Assets, Liabilities, Deferred Inflows and Deferred Outflows of Resources:	
Receivables	24,783
Stores inventories	(230,982)
Other assets	(104,621)
Accounts payable and accrued liabilities	(1,187,450)
Unearned revenue	(39,661)
Claims payable	38,887
Aggregate net pension obligation	24,789,549
Net OPEB obligation	(2,954,757)
Compensated absences	(32,199)
Change in deferred outflows related to pensions	(27,119,753)
Change in deferred inflows related to pensions	492,609
Total Adjustments	5,845,266
Net Cash Flows From Operating Activities	$ (272,440,433)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 7,849,573
Cash in county treasury	297,587,762
Total Cash and Cash Equivalents	$ 305,437,335
NON CASH TRANSACTIONS	
On behalf payments for benefits (see Note 13)	$ 4,916,033

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 6,188,602	$ 40,960
Investments	76,124,840	-
Accounts receivable	2,698,270	19,000
Student loans receivable	775,189	10,262
Due from primary government	34,139	-
Due from trust funds	-	70,175
Prepaid expenses	500	-
Total Assets	85,821,540	$ 140,397
LIABILITIES		
Accounts payable	579,328	$ -
Due to primary government	4,276,824	-
Due to agency funds	70,175	-
Unearned revenue	4,315,591	-
Due to student groups	3,640,367	140,397
Total Liabilities	12,882,285	$ 140,397
NET POSITION		
Reserved	500	
Unreserved	72,938,755	
Total Net Position	$ 72,939,255	

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

	Trust Funds
ADDITIONS	
Local revenues	$ 1,043,793
DEDUCTIONS	
Classified salaries	123,700
Employee benefits	22,523
Books and supplies	60,479
Services and other operating expenditures	485,072
Capital outlay	6,625
Total Deductions	698,399
OTHER FINANCING SOURCES	
Transfers from primary government	196,802
Change in Net Position	542,196
Net Position - Beginning of Year	72,397,059
Net Position - Ending	$ 72,939,255

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

NOTE 1 - ORGANIZATION

The North Orange County Community College District (the District) is a comprehensive, public, two-year institution offering higher education in the Counties of Orange and Los Angeles in the State of California and is governed by an elected Board of Trustees. The District is comprised of two college campuses, Cypress College and Fullerton College, the District office, a vocational and adult center, the School of Continuing Education, which offers courses and programs at the Anaheim campus, the Cypress College campus, the Wilshire campus, and other off-site locations. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes. 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 and as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective which was previously reported. 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 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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, such as State apportionments, property taxes, grants, entitlements, and donations are classified as nonoperating revenue. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants. Eligibility requirements may include time and/or purpose requirements. Property tax revenues are recognized in the fiscal year in which they are received. State apportionment revenue is earned based upon criteria set forth from the Community College Chancellor's Office and includes reporting of full-time equivalent students (FTES). The corresponding apportionment revenue is recognized in the period the FTES are generated.

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, No. 39, and No. 61. The business-type activities model followed by the District requires the following components of the District's financial statements:

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

Cash and Cash Equivalents

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

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 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 Investments

Restricted investments 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 investments represent those 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 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.

Stores Inventories

Stores inventories consist primarily of bookstore merchandise held for resale to the students and faculty of the colleges. In addition, the District warehouse holds some inventory of paper and office supplies for daily operational needs. Inventories are stated at cost, utilizing the average cost method. The cost is recorded as an expense as the inventory is consumed.

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 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 pension related items. The District reports deferred outflows of resources for the deferred charges on the refunding of general obligation bonds and current year pension contributions. Deferred charges on refunding are amortized using the straight-line method over the remaining life of the new debt.

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.

Capital Assets and Depreciation

Capital assets are stated at cost at the date of acquisition or fair value at the date of gift. The District's capitalization policy includes all items with a unit cost of $5,000 (for equipment) and an estimated useful life of greater than one year. Buildings, renovations to buildings, infrastructure, and land improvements that cost more than $150,000, significantly increase the value, or extend the useful life of the structure, are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expense is incurred. Depreciation of equipment and vehicles, facilities, and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Costs for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

Land improvements	50 years
Buildings and improvements	50 years
Machinery and equipment	5-20 years

Unearned Revenue

Unearned revenue is recorded to the extent that cash received from Federal programs, State special projects, other programs, and fees, has not been earned.

Noncurrent Liabilities

Noncurrent liabilities include compensated absences, claims payable, bonds payable, and OPEB obligations with maturities greater than one year.

Compensated Absences

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

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

Net Position

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

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

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 $107,465,602 of restricted net position.

Operating Revenues and Expenses

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

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

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

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

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

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

State Apportionments

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

Property Taxes

Property taxes are assessed and levied by the County of Orange on the fourth Monday of September of each year and they become an enforceable lien on real property on January 1 of the same year. Secured taxes are payable to the District in two installments, on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. Tax remittances are paid net of a County administrative charge.

The District has reported property tax revenue only for taxes levied and due within the fiscal year. The District participates in the Orange County Teeter Plan and is paid all current year taxes in the year levied. The Teeter Plan allows the County to follow the accrual method of accounting to allocate property tax revenues based on the total amount of property taxes billed but not yet collected. A receivable has not been recognized in the basic financial statements for property taxes due to the fact that any receivable would be offset by a payable to the State for State apportionment purposes.

The voters of the District passed General Obligation Bonds in March 2002 and November 2014 for the acquisition, construction, and rehabilitation of facilities. 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 by the County of Orange and remitted to the District.

Scholarships, Discounts, and Allowances

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

Federal Financial Assistance Programs

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

Estimates

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

Interfund Activity

Interfund transfers and interfund receivables and payables for governmental activities 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.

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.

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.

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.

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

General Authorizations

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

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

Authorized Under Debt Agreements

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

Summary of Deposits and Investments

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

Primary government	$ 305,437,335
Fiduciary funds	82,354,402
Total Deposits and Investments	$ 387,791,737

Cash on hand and in banks	$ 13,854,135
Cash in revolving funds	225,000
Investments	373,712,602
Total Deposits and Investments	$ 387,791,737

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 Orange County Educational Investment Pool and certificates of deposit.

Specific Identification

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

Investment Type	Book Value	Fair Value	Weighted Average Days to Maturity
Orange County Educational Investment Pool	$ 372,300,752	$ 373,218,821	339
Certificates of Deposit	1,411,850	1,411,850	Various
Total	$ 373,712,602	$ 374,630,671	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Orange County Educational Investment Pool is not required to be rated. However, as of the year-end, the Orange County Educational Investment Pool reflected an AAAm rating by Standard and Poor's Rating Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, of the District's bank balance of $14,079,135, $8,210,822 was exposed to custodial credit risk because it was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

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

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

Uncategorized **-** Investments in the Orange County Educational 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	Uncategorized
Certificates of Deposit	$ 1,411,850	$ 1,411,850	$ -
Orange County Educational Investment Pool	373,218,821	-	373,218,821
Total	$ 374,630,671	$ 1,411,850	$ 373,218,821

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

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016, 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	$ 2,144,828	$ -
State Government		
Categorical aid	906,729	-
Lottery	3,853,925	-
Educational Revenue Augmentation Fund	14,197,522	-
Other State sources	34,201	-
Local Government		
Interest	130,501	2,574
Other	1,211,158	2,714,696
Total	$ 22,478,864	$ 2,717,270
Student loans receivable	$ 722,910	$ 785,451

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds, respectively, has been eliminated in the consolidation process of the basic financial statements. Balances owing between the primary governmental and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2016, the amount owed between the primary government and the fiduciary funds were $4,276,824 and $34,139, respectively.

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 fiduciary funds from the primary government amounted to $196,802.

NOTE 7 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deductions/ Reclassifications	Balance June 30, 2016
Capital Assets Not Being Depreciated				
Land	$ 14,756,218	$ 2,009,319	$ -	$ 16,765,537
Construction in progress	2,739,994	4,267,052	2,459,609	4,547,437
Total Capital Assets Not Being Depreciated	17,496,212	6,276,371	2,459,609	21,312,974
Capital Assets Being Depreciated				
Land improvements	3,555,725	953,690	-	4,509,415
Buildings and improvements	507,569,705	2,109,101	-	509,678,806
Machinery and equipment	22,669,494	3,197,172	317,031	25,549,635
Total Capital Assets Being Depreciated	533,794,924	6,259,963	317,031	539,737,856
Total Capital Assets	551,291,136	12,536,334	2,776,640	561,050,830
Less Accumulated Depreciation				
Land improvements	1,313,467	191,279	-	1,504,746
Buildings and improvements	129,494,442	10,343,747	-	139,838,189
Machinery and equipment	16,479,300	1,633,835	317,031	17,796,104
Total Accumulated Depreciation	147,287,209	12,168,861	317,031	159,139,039
Net Capital Assets	$ 404,003,927	$ 367,473	$ 2,459,609	$ 401,911,791

Depreciation expense for the year was $12,168,861.

Interest expense on capital related debt for the year ended June 30, 2016, was $6,019,747. Of this amount, $3,128 was capitalized.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	$ 5,520,580	$ -
Apportionment	4,486,577	-
Construction	1,402,243	-
Services	9,895,788	579,328
Vehicle License Fee Adjustment Amount (VLFAA)	5,954,260	-
Total	$ 27,259,448	$ 579,328

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	Primary Government	Fiduciary Funds
State categorical aid	$ 7,056,169	$ -
Student fees	-	4,315,591
Other local revenues	117,312	-
Total	$ 7,173,481	$ 4,315,591

NOTE 10 - LONG-TERM OBLIGATIONS

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 Payable					
2003B General obligation bonds	$ 60,193,318	$ 3,272,158	$ -	$ 63,465,476	$ -
2005 General obligation refunding bonds	12,590,000	-	12,590,000	-	-
2013 General obligation refunding bonds	141,010,000	-	2,885,000	138,125,000	16,905,000
2016A General obligation bonds	-	100,000,000	-	100,000,000	14,375,000
Unamortized premium	-	5,744,674	-	5,744,674	-
Total Bonds Payable	213,793,318	109,016,832	15,475,000	307,335,150	31,280,000
Other Liabilities					
Compensated absences/Load banking	7,608,761	-	32,199	7,576,562	3,629,300
Claims payable	5,033,528	38,887	-	5,072,415	-
Net OPEB obligation	60,556,658	11,597,324	14,552,081	57,601,901	-
Aggregate net pension obligation	139,324,996	24,789,549	-	164,114,545	-
Total Other Liabilities	212,523,943	36,425,760	14,584,280	234,365,423	3,629,300
Total Long-Term Obligations	$ 426,317,261	$ 145,442,592	$ 30,059,280	$ 541,700,573	$ 34,909,300

Description of Debt

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. The compensated absences/load banking liability will be paid by the fund for which the employee worked. The claims payable liability and the pay-as-you-go portion of the Net OPEB obligation will be paid by the Internal Service Fund. Pension expense related to the Aggregate net pension obligation will be paid by the fund for which the employee worked. See Note 13 for further details of the aggregate net pension obligation.

Bonded Debt

Bonds Payable

On March 5, 2002, the voters of the District approved Measure X, which allowed the District to issue $239,000,000 of general obligation bonds to be used to finance the acquisition, construction, and modernization of certain property and District facilities.

2003B General Obligation Bonds

On December 23, 2003, $99,999,001 of North Orange County Community College District, Election of 2002, Series 2003B Bonds were issued with a final maturity date of August 1, 2028, and interest rates ranging from 2.00 percent to 5.44 percent, depending on the maturity of the related bonds. Interest is payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2016, was $63,465,476.

2005 General Obligation Refunding Bonds

On April 6, 2005, $164,935,000 of North Orange County Community College District, 2005 General Obligation Refunding Bonds were issued to advance refund and defease a portion of the District's Election of 2002 General Obligation Bonds, Series A maturing on and after August 1, 2013, and the District's Election of 2002 General Obligation Bonds, Series 2003B, and together with the Series A the "Refunded Bonds" maturing from August 1, 2015 through August 1, 2020, and to pay all legal, financial, and contingent costs in connection with the issuance of the Bonds. The Refunding Bonds defeased $153,250,000 of the old debt with a final maturity date of August 1, 2015. Interest rates range from 3.00 percent to 5.00 percent, depending on the maturity of the related bonds. Interest is payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds was paid off in full as of August 1, 2015.

2013 General Obligation Refunding Bonds

On January 24, 2013, $145,910,000 of North Orange County Community College District, 2005 General Obligation Refunding Bonds were issued to advance refund and defease a portion of the District's 2005 General Obligation Refunding Bonds maturing on and after August 1, 2013, and to pay all legal, financial, and contingent costs in connection with the issuance of the Bonds. The Refunding Bonds defeased $129,945,000 of the old debt with a final maturity date of August 1, 2023. Interest rates range from 0.40 percent to 2.65 percent, depending on the maturity of the related bonds. The Bonds are payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2016, was $138,125,000.

On November 4, 2014, the voters of the District approved Measure J, which allowed the District to issue $574,000,000 of general obligation bonds to be used to finance the acquisition, construction, and modernization of certain property and District facilities.

2016A General Obligation Bonds

On June 2, 2016, $100,000,000 of North Orange County Community College District, Election of 2014, Series 2016A Bonds were issued with a final maturity date of August 1, 2040, and interest rates ranging from 2.00 percent to 4.00 percent, depending on the maturity of the related bonds. Interest is payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2016, was $100,000,000.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2016
2003	2029	2.00%-5.44%	$ 99,999,001	$ 60,193,318	$ -	$ 3,272,158	$ -	$ 63,465,476
2005	2016	3.00%-5.00%	164,935,000	12,590,000	-	-	12,590,000	-
2013	2024	0.40%-2.65%	145,910,000	141,010,000	-	-	2,885,000	138,125,000
2016	2041	2.00%-4.00%	100,000,000	-	100,000,000	-	-	100,000,000
				$ 213,793,318	$ 100,000,000	$ 3,272,158	$ 15,475,000	$ 301,590,476

The 2003B General Obligation Bonds mature through 2029 as follows:

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest*	Total
2022-2026	$ 36,341,097	$ 19,103,903	$ 55,445,000
2027-2029	27,124,379	24,515,621	51,640,000
Total	$ 63,465,476	$ 43,619,524	$ 107,085,000

* Interest that is accrued at a discount from the face value of the bonds, and no interest payment is made until maturity.

The 2013 Refunding Bonds mature through 2024 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	$ 16,905,000	$ 2,513,185	$ 19,418,185
2018	17,885,000	2,320,816	20,205,816
2019	18,960,000	2,063,938	21,023,938
2020	20,140,000	1,729,536	21,869,536
2021	21,440,000	1,308,395	22,748,395
2022-2024	42,795,000	1,609,246	44,404,246
Total	$ 138,125,000	$ 11,545,116	$ 149,670,116

The 2016A General Obligation Bonds mature through 2041 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	$ 14,375,000	$ 1,929,680	$ 16,304,680
2018	16,345,000	2,784,813	19,129,813
2019	16,635,000	2,206,938	18,841,938
2020	15,550,000	1,563,238	17,113,238
2021	585,000	1,243,463	1,828,463
2022-2026	4,225,000	5,818,465	10,043,465
2027-2031	6,975,000	4,776,540	11,751,540
2032-2036	10,390,000	3,362,695	13,752,695
2037-2041	14,920,000	1,190,751	16,110,751
Total	$ 100,000,000	$ 24,876,583	$ 124,876,583

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was $11,867,872, and contributions made by the District during the year were $14,552,081. Interest on the net OPEB obligation and adjustments to the annual required contribution were $2,725,050 and $(2,995,598), respectively, which resulted in a decrease to the net OPEB obligation of $2,954,757. As of June 30, 2016, the net OPEB obligation was $57,601,901. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Compensated Absences

At June 30, 2016, the liability for compensated absences was $4,672,189.

Load Banking

At June 30, 2016, the liability for load banking was $2,904,373.

Aggregate Net Pension Obligation

At June 30, 2016, the liability for the aggregate net pension obligation amounted to $164,114,545. See Note 13 for additional information.

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

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 District currently provides retiree medical coverage to eligible academic and classified employees for the retiree's lifetime. Eligibility requirements vary by employee classification. All participants must have a minimum service of 15 years and be eligible to retire under CalSTRS or CalPERS. Academic and classified employees must be at least 55 and 50 years of age, respectively. The District pays for 100 percent of the premium for retiree coverage, and the retiree pays for the cost of dependent coverage. Membership of the Plan consists of 921 retirees and beneficiaries currently receiving benefits and 1,161 active plan members.

Irrevocable Trust

During the year ended June 30, 2016, the District established an irrevocable trust in accordance with GASB Statement No. 45. Contributions to the trust will be used solely to pay for retiree health care costs.

Contribution Information

The contribution requirements 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 feasible by Administration and the Board of Trustees. For fiscal year 2015-2016, the District contributed $14,552,081 to the Plan; $10,000,000 was contributed to the Irrevocable Trust and $4,552,081 was contributed from the Self Insurance Fund to pay for current year premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with 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 obligation to the Plan:

Annual required contribution	$ 11,867,872
Interest on net OPEB obligation	2,725,050
Adjustment to annual required contribution	(2,995,598)
Annual OPEB cost (expense)	11,597,324
Contributions made from the Self Insurance Fund	(4,552,081)
Contributions made to Irrevocable Trust	(10,000,000)
Decrease in net OPEB obligation	(2,954,757)
Net OPEB obligation, beginning of year	60,556,658
Net OPEB obligation, end of year	$ 57,601,901

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	$ 12,546,060	$ 5,352,353	43%	$ 53,204,231
2015	11,630,172	4,277,745	37%	60,556,658
2016	11,597,324	14,552,081	125%	57,601,901

Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	$ 153,384,773
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 153,384,773
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	N/A
UAAL as Percentage of Covered Payroll	N/A

The above noted actuarial accrued liability was based on the October 2014 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 October 2014 actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return, based on the assumed long-term return on Plan assets or employer assets. The cost trend rate used for the Medical, Dental, and Vision Programs reflected an ultimate rate of 4.0 percent. The UAAL is being amortized at a level percentage of payroll method. The actuarial value of assets was not determined in this actuarial valuation. The fair market value of assets contributed to the Irrevocable Trust as of June 30, 2016 was $10,054,992.

NOTE 12 - RISK MANAGEMENT

Property and Liability Insurance Coverages

The District is exposed to various risks of loss related to torts, property liability, health benefits, errors, omissions, and natural disasters. These risks are addressed through a combination of participation in public entity risk pools, commercial insurance, and self-insurance. The District is insured for workers' compensation claims and property and liability claims through a combination of self-insurance and commercial insurance.

The District is also a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP) and Schools Excess Liability Fund (SELF) public entity risk pools. The District is subject to various deductible amounts and pays premiums assessed by the pools. The pools are responsible for claims beyond the deductible amount of commercial insurance and provide for high-level umbrella type coverage above certain limits. The pools are operated separately and are independently accountable for their fiscal matters. The pools are not component units of the District for financial reporting purposes. A copy of the most recent audited financial statements may be obtained from ASCIP and SELF.

Estimates of liabilities for claims, both reported and unreported, for workers' compensation liability claims are established by the District's external administrator. The estimates are based on the continuous evaluation of the status of each claim. Estimates of liabilities for the property and liability claims are based on an analysis of individual claims. Management believes that the amounts accrued are adequate to cover such costs.

A number of claims and suits are pending against the District arising out of proposed claim settlements. In the opinion of District administration, the related liability, if any, will not materially affect the financial position of the District. No settlements exceeded insurance coverage during the last three years.

As of June 30, 2016 and 2015, liabilities for claims amounted to $5,072,415 and $5,033,528, respectively. Changes in the claims liability amount in the fiscal years 2016 and 2015 are presented below:

	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2014	$ 3,689,408	$ 1,344,120	$ 5,033,528
Claims and changes in estimates	2,211,252	946,895	3,158,147
Claims payments	(2,211,252)	(946,895)	(3,158,147)
Liability Balance, July 1, 2015	3,689,408	1,344,120	5,033,528
Claims and changes in estimates	2,319,026	917,107	3,236,133
Claims payments	(2,280,139)	(917,107)	(3,197,246)
Liability Balance, June 30, 2016	$ 3,728,295	$ 1,344,120	$ 5,072,415
Assets available to pay claims at June 30, 2016			$ 33,405,992

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:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 100,670,970	$ 16,470,420	$ 23,732,160	$ 6,963,556
CalPERS	63,443,575	22,454,508	18,296,406	5,694,440
Total	$ 164,114,545	$ 38,924,928	$ 42,028,566	$ 12,657,996

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 non-employer contributing entity to the STRP.

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

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

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

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 $8,538,491.

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	$ 100,670,970
State's proportionate share of net pension liability associated with the District	53,243,846
Total	$ 153,914,816

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 0.1495 percent and 0.1590 percent, respectively, resulting in a net decrease in the proportionate share of 0.0095 percent.

For the year ended June 30, 2016, the District recognized pension expense of $6,963,556. In addition, the District recognized pension expense and revenue of $4,124,334 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	$ 8,538,491	$ -
Net change in proportionate share of net pension liability	-	5,911,675
Difference between projected and actual earnings on pension plan investments	7,931,929	16,138,249
Differences between expected and actual experience in the measurement of the total pension liability	-	1,682,236
Total	$ 16,470,420	$ 23,732,160

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	$ (3,396,434)
2018	(3,396,434)
2019	(3,396,434)
2020	1,982,982
Total	$ (8,206,320)

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	$ (1,265,652)
2018	(1,265,652)
2019	(1,265,652)
2020	(1,265,652)
2021	(1,265,652)
Thereafter	(1,265,651)
Total	$ (7,593,911)

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.

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

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	$ 152,005,329
Current discount rate (7.60%)	100,670,970
1% increase (8.60%)	58,007,976

<u>California Public Employees' Retirement System (CalPERS)</u>

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 reports 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	On or after
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%

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 $5,957,101.

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 $63,443,575. 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 0.4304 percent and 0.4088 percent, respectively, resulting in a net increase in the proportionate share of 0.0216 percent.

For the year ended June 30, 2016, the District recognized pension expense of $5,694,440. 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	$ 5,957,101	$ -
Net change in proportionate share of net pension liability	2,451,581	1,805,962
Difference between projected and actual earnings on pension plan investments	10,419,932	12,592,294
Differences between expected and actual experience in the measurement of the total pension liability	3,625,894	-
Changes of assumptions	-	3,898,150
Total	$ 22,454,508	$ 18,296,406

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	$ (1,592,448)
2018	(1,592,448)
2019	(1,592,448)
2020	2,604,982
Total	$ (2,172,362)

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	$ (151,488)
2018	(151,489)
2019	676,340
Total	$ 373,363

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

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%)	$ 103,259,703
Current discount rate (7.65%)	63,443,575
1% increase (8.65%)	30,333,803

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 $4,916,033 (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.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

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

Operating Leases

The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain bargain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. The operating lease expense for the year ended June 30, 2016, was approximately $72,127. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payments
2017	$ 33,868
2018	895
2019	895
2020	75
Total	$ 35,733

Construction Commitments

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

	Remaining Construction Commitment	Expected Date of Completion
Anaheim Campus Build-Out Project	$ 677,803	On-going
Cypress College Thermal Energy Project	7,795,894	July 2017
Cypress College Science, Engineering, and Math Building Project	460,690	On-going
	$ 8,934,387	

The projects are funded through a combination of general obligation bonds, capital project apportionments from the California Community College Chancellor's Office, and local funds.

NOTE 15 - FUNCTIONAL EXPENSES CLASSIFICATION

The District's operating expenses by functional classification for the fiscal year ended June 30, 2016, are:

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Equipment, Maintenance, and Repairs	Depreciation	Total
Instructional activities	$ 75,425,337	$ 20,341,765	$ -	$ 6,357,987	$ -	$ 102,125,089
Academic support	23,799,408	4,340,867	-	3,826,691	-	31,966,966
Student services	22,174,900	4,140,007	-	2,735,655	-	29,050,562
Plant operations and maintenance	8,392,050	2,135,971	-	6,960,383	-	17,488,404
Instructional support services	14,091,560	12,696,973	-	6,374,429	-	33,162,962
Community services and economic development	1,027,814	174,625	-	238,855	-	1,441,294
Ancillary services and auxiliary operations	3,123,529	695,277	-	3,699,693	-	7,518,499
Student aid	5,384	82	58,722,983	8,097	-	58,736,546
Physical property and related acquisitions	1,232,778	242,132	-	9,023,976	-	10,498,886
Depreciation	-	-	-	-	12,168,861	12,168,861
Total	$ 149,272,760	$ 44,767,699	$ 58,722,983	$ 39,225,766	$ 12,168,861	$ 304,158,069

REQUIRED SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY 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) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 2010	$ -	$ 166,148,230	$ 166,148,230	0%	N/A	N/A
July 2012	-	163,874,606	163,874,606	0%	N/A	N/A
October 2014	-	153,384,773	153,384,773	0%	N/A	N/A

See accompanying note to required supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

	2016	2015
CalSTRS		
District's proportion of the net pension liability	0.1495%	0.1590%
District's proportionate share of the net pension liability	$ 100,670,970	$ 92,916,230
State's proportionate share of the net pension liability associated with the District	53,243,846	56,106,831
Total	$ 153,914,816	$ 149,023,061
District's covered - employee payroll	$ 70,822,399	$ 70,820,109
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	142.15%	131.20%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability	0.4304%	0.4088%
District's proportionate share of the net pension liability	$ 63,443,575	$ 46,408,766
District's covered - employee payroll	$ 46,862,170	$ 43,007,787
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	135.38%	107.91%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

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

See accompanying note to required supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

	2016	2015
CalSTRS		
Contractually required contribution	$ 8,538,491	$ 6,289,029
Contributions in relation to the contractually required contribution	8,538,491	6,289,029
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 79,575,871	$ 70,822,399
Contributions as a percentage of covered - employee payroll	10.73%	8.88%
CalPERS		
Contractually required contribution	$ 5,957,101	$ 5,516,146
Contributions in relation to the contractually required contribution	5,957,101	5,516,146
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 50,283,625	$ 46,862,170
Contributions as a percentage of covered - employee payroll	11.847%	11.771%

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

See accompanying note to required supplementary information.

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

DISTRICT ORGANIZATION
JUNE 30, 2016

The North Orange County Community College District was established in 1965 and serves approximately 155 square miles within Orange County and Los Angeles County. The District currently operates two community colleges, Cypress College (CC) and Fullerton College (FC). The college credit programs are housed primarily at CC and FC. The District also provides comprehensive college and continuing education programs through their School of Continuing Education (SCE) at the Anaheim campus, the Cypress College campus, and the Wilshire campus. The District's colleges are 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. There were no changes in the boundaries of the District during the current year.

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Dr. Barbara Dunsheath	President	2018
Ms. Molly McClanahan	Vice President	2016
Ms. Jacqueline Rodarte	Secretary	2016
Mr. Leonard L. Lahtinen	Member	2016
Mr. Jeffrey P. Brown	Member	2018
Mr. M. Tony Ontiveros	Member	2016
Mr. Stephen T. Blount	Member	2018
Ms. Tanya Washington	Student Trustee, Cypress College	2017
Mr. Scott Begneski	Student Trustee, Fullerton College	2017

ADMINISTRATION

Dr. Cheryl A. Marshall, Ed.D	Chancellor
Mr. Fred Williams	Vice Chancellor, Finance and Facilities
Ms. Irma Ramos	Vice Chancellor, Human Resources
Dr. Cherry Li-Bugg	Vice Chancellor, Educational Services and Technology
Dr. Robert Simpson	President, Cypress College
Dr. Greg Schulz	President, Fullerton College
Ms. Valentina Purtell	Interim Provost, School of Continuing Education
Ms. Deborah Ludford	District Director, Information Services
Ms. Kai Stearns Moore	District Director, Public and Governmental Affairs

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		$ 43,833,974
Federal Pell Grant Program Administrative Allowance	84.063		62,100
Federal Direct Loan	84.268		8,388,078
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		648,162
FSEOG Administrative Allowance	84.007		17,463
Federal Work-Study Program	84.033		433,398
Federal Work-Study Administrative Allowance	84.033		41,855
Subtotal Student Financial Assistance Cluster			53,425,030
COLLEGE COST REDUCTION AND ACCESS ACT (CCRAA)			
Passed through from California State University Fullerton Auxiliary Services Corporation,			
Strengthening Transfer Education and Matriculation in STEM	84.031C	S-5261-NOCCCD	120,418
Passed through from Rancho Santiago Community College District			
Title III, Part F, Hispanic-Serving Institutions Science Technology, Engineering and Mathematics and Articulation Programs	84.031C	P031C110183	316,692
HIGHER EDUCATION ACT			
Title V - Strengthening Basic Skills to Improve Hispanic Student Retention, Persistence, and Success	84.031S		60,074
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)			
Passed through California Department of Education			
Adult Education and Family Literacy Act (AEFLA)	84.002A	V002A150005	967,047
English Literacy and Civics Education Grant (EL Civics)	84.002A	V002A150005	559,618
CAREER AND TECHNICAL EDUCATION ACT			
Passed through from California Community Colleges Chancellor's Office			
Career and Technical Education Act (CTEA), Title I, Part C	84.048	16-C01-037	2,045,863
Title I, CTEA Transitions	84.048A	15-112-036	59,913
REHABILITATION ACT			
Passed through from California Department of Rehabilitation			
College to Career Program	84.126A	29301	242,953
Workability III Program	84.126A	28858	217,884
NATIONAL SCIENCE FOUNDATION			
Passed through from Rancho Santiago Community College District			
Advanced Technological Education Grant [2]	47.076	15-1621.01	987

[1] Pass-Through Grantor's Number not available.
[2] Research and development program.

See accompanying note to supplementary information.

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Program Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through from California Community Colleges Chancellor's Office			
Temporary Assistance to Needy Families (TANF)	93.558	[1]	$ 149,364
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through from Orange County Transportation Authority			
Job Access - Reverse Commute	20.516	C-3-1384	113,497
U.S. DEPARTMENT OF LABOR			
Passed through from California Community Colleges Chancellor's Office			
H-1 B Technical Skills Training	17.268	[1]	59,983
U.S. DEPARTMENT OF AGRICULTURE			
Passed through from California Department of Education			
Child and Adult Care Food Program	10.558	04367-CACFP-30-CC-IC	14,932
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Services	64.117		8,406
Total Federal Program Expenditures			$ 58,362,661 [3]

[1] Pass-Through Grantor's Number not available.

[3] The difference between the Schedule of Expenditures of Federal Awards and Federal revenues reported on the Statement of Revenues, Expenses, and Change in Net Position is due to differences of $33,729 related to revenue recognition principles in various programs.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

	Program Entitlements		
Program	Current Year	Prior Year	Total Entitlement
STATE CATEGORICAL AID PROGRAMS			
AB86 Adult Education Regional Consortium	$ 3,545,110	$ 105,962	$ 3,651,072
AB86 Adult Education Block - Data and Accountability	584,758	-	584,758
AS Degree Nursing Program	237,887	-	237,887
Baccalaureate Degree Pilot Program	350,000	-	350,000
Baccalaureate Degree Pilot Program Implementation Support Grant	750,000	-	750,000
Basic Skills	778,972	524,327	1,303,299
Board Financial Assistance Program (BFAP)	1,383,640	-	1,383,640
CalWORKs	764,960	-	764,960
Child Care Food Program	1,000	-	1,000
Child Development Training Consortium	15,000	-	15,000
Cooperative Agencies Resources for Education (CARE)	359,650	-	359,650
CTE Enhancement Fund	46,817	1,516,746	1,563,563
Deputy Sector Navigator	300,000	206,892	506,892
Disabled Students Programs and Services (DSPS)	2,972,660	-	2,972,660
AC Emergency Preparedness Grant	-	4,800	4,800
Equal Employment Opportunities	12,657	5,000	17,657
Extended Opportunity Programs and Services (EOPS)	2,406,149	-	2,406,149
General Child Care	101,280	-	101,280
Information and Communications Technology	12,000	-	12,000
Non-Credit Student Success and Support Program	1,394,063	210,028	1,604,091
Orange County Career Pathways Partnership	168,252	186,759	355,011
Orange County Teacher Pathway Partnership	353,744	124,649	478,393
Prop 39 Program Improvement Funds	-	7,401	7,401
Puente Project	3,000	-	3,000
QRIS Block Grant	4,680	-	4,680
Student Equity Program	3,855,520	1,264,873	5,120,393
Student Success and Support Program	6,554,015	521,709	7,075,724
Teacher Preparation Pipeline	240,000	93,225	333,225
Telecommunications Technology Improvement Program (TTIP)	-	12,899	12,899
Work Independence Self-Advocacy Education	472,045	-	472,045
Total State Programs			

See accompanying note to supplementary information.

Program Revenues					
Cash Received	Accounts Receivable	Accounts Payable	Unearned Revenue	Total Revenue	Program Expenditures
$ 3,651,072	$ -	$ -	$ 2,643,225	$ 1,007,847	$ 1,007,847
584,758	-	-	584,758	-	-
218,856	-	-	25,815	193,041	193,041
350,000	-	-	332,152	17,848	17,848
302,500	-	-	177,614	124,886	124,886
1,303,296	-	-	407,218	896,078	896,078
1,383,640	-	-	-	1,383,640	1,383,640
678,376	86,584	1,057	-	763,903	763,903
646	-	-	-	646	646
15,000	-	-	-	15,000	15,000
359,650	-	771	-	358,879	358,879
871,686	474,643	-	-	1,346,329	1,346,329
146,892	180,211	-	12	327,091	327,091
2,972,660	-	9,792	-	2,962,868	2,962,868
4,800	-	-	611	4,189	4,189
17,657	-	-	631	17,026	17,026
2,406,149	-	-	-	2,406,149	2,406,149
80,632	10,817	-	-	91,449	91,449
-	1,731	-	-	1,731	1,731
1,604,090	-	-	428,402	1,175,688	1,175,688
216,948	92,396	-	92,052	217,292	217,292
169,832	60,347	-	-	230,179	230,179
7,401	-	691	-	6,710	6,710
3,000	-	-	763	2,237	2,237
4,679	-	-	4,679	-	-
5,110,393	-	16,220	1,248,704	3,845,469	3,845,469
7,075,724	-	-	1,040,994	6,034,730	6,034,730
181,147	-	-	65,924	115,223	115,223
12,899	-	-	2,615	10,284	10,284
467,270	-	-	-	467,270	467,270
$ 30,201,653	$ 906,729	$ 28,531	$ 7,056,169	$ 24,023,682	$ 24,023,682

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

CATEGORIES	Revised* Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2015 only)			
1. Noncredit**	635.38	-	635.38
2. Credit	2,390.84	-	2,390.84
B. Summer Intersession (Summer 2016 - Prior to July 1, 2016)			
1. Noncredit**	-	-	-
2. Credit	-	-	-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	23,398.73	-	23,398.73
(b) Daily Census Contact Hours	782.71	-	782.71
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	4,867.22	-	4,867.22
(b) Credit	797.01	-	797.01
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,328.16	-	2,328.16
(b) Daily Census Contact Hours	634.69	-	634.69
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	35,834.74	-	35,834.74
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	14.34	-	14.34
H. Basic Skills Courses and Immigrant Education			
1. Noncredit**	2,745.68	-	2,745.68
2. Credit	2,558.57	-	2,558.57
CCFS-320 Addendum			
CDCP Noncredit FTES	2,777.81	-	2,777.81
Centers FTES			
1. Noncredit**	5,289.56	-	5,289.56
2. Credit	-	-	-

* Annual report revised as of September 29, 2016.
** Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2016

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional Salaries							
Contract or Regular	1100	$ 40,934,382	$ -	$ 40,934,382	$ 40,934,382	$ -	$ 40,934,382
Other	1300	30,004,785	-	30,004,785	30,004,785	-	30,004,785
Total Instructional Salaries		70,939,167	-	70,939,167	70,939,167	-	70,939,167
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	14,906,590	-	14,906,590
Other	1400	-	-	-	442,993	-	442,993
Total Noninstructional Salaries		-	-	-	15,349,583	-	15,349,583
Total Academic Salaries		70,939,167	-	70,939,167	86,288,750	-	86,288,750
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	32,718,898	-	32,718,898
Other	2300	-	-	-	2,012,041	-	2,012,041
Total Noninstructional Salaries		-	-	-	34,730,939	-	34,730,939
Instructional Aides							
Regular Status	2200	3,696,922	-	3,696,922	3,696,922	-	3,696,922
Other	2400	508,967	-	508,967	508,967	-	508,967
Total Instructional Aides		4,205,889	-	4,205,889	4,205,889	-	4,205,889
Total Classified Salaries		4,205,889	-	4,205,889	38,936,828	-	38,936,828
Employee Benefits	3000	24,792,677	-	24,792,677	50,285,783	-	50,285,783
Supplies and Material	4000	-	-	-	1,864,655	-	1,864,655
Other Operating Expenses	5000	-	-	-	13,716,993	-	13,716,993
Total Expenditures Prior to Exclusions		99,937,733	-	99,937,733	191,093,009	-	191,093,009

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Exclusions							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	$ 4,750,992	$ -	$ 4,750,992	$ 4,750,992	$ -	$ 4,750,992
Student Health Services Above Amount Collected	6441	-	-	-	27,973	-	27,973
Student Transportation	6491	-	-	-	57,327	-	57,327
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	2,552,361	-	2,552,361
Objects to Exclude							
Rents and Leases	5060	-	-	-	71,866	-	71,866

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	$ -	$ -	$ -	$ 5,896,564	$ -	$ 5,896,564
Total Exclusions		4,750,992	-	4,750,992	13,357,083	-	13,357,083
Total for ECS 84362, 50 Percent Law		$ 95,186,741	$ -	$ 95,186,741	$ 177,735,926	$ -	$ 177,735,926
Percent of CEE (Instructional Salary Cost/Total CEE)		53.56%		53.56%	100.00%		100.00%
50% of Current Expense of Education					$ 88,867,963		$ 88,867,963

See accompanying note to supplementary information.

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

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY 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				$ 27,968,573
Activity Classification	**Activity Code**	**Salaries and Benefits (Obj 1000-3000)**	**Operating Expenses (Obj 4000-5000)**	**Capital Outlay (Obj 6000)**	**Total**
Instructional Activities	1000-5900	$ 27,968,573	$ -	$ -	$ 27,968,573
Total Expenditures for EPA		$ 27,968,573	$ -	$ -	$ 27,968,573
Revenues Less Expenditures					$ -

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS 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, Retained Earnings, and Due to Student Groups		
General Fund	$ 52,123,499	
Special Revenue Funds	3,950,456	
Capital Project Funds	165,583,070	
Debt Service Fund	40,745,671	
Internal Service Fund	28,333,577	
Fiduciary Funds	76,770,019	
Total Fund Balance, Retained Earnings, and Due to Student Groups		**$ 367,506,292**
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	561,050,830	
Accumulated depreciation is	(159,139,039)	401,911,791
Amounts held in trust on behalf of others (Trust Funds)		(76,720,019)
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		14,495,592
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.		(1,081,112)
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.		(5,266,056)
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.		1,943,658
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.		(3,898,150)
The differences between projected and actual earnings on pension plan investment are not recognized on the modified accrual basis, but are recognized on the accrual basis over a closed five-year period.		(10,378,682)

See accompanying note to supplementary information.

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE STATEMENT OF NET POSITION, CONTINUED
JUNE 30, 2016

Long-term obligations at year end consist of:		
Bonds payable	$ 277,308,675	
Compensated absences	7,576,562	
Net other postemployment benefits (OPEB) obligation	57,601,901	
Aggregate net pension obligation	164,114,545	
Less load banking already recorded in funds	(2,629,300)	
Less compensated absences already recorded in funds	(1,000,000)	
In addition, the District issued "capital appreciation" general obligation bonds. The accretion of interest on those bonds to date is:	30,026,475	
		$ (532,998,858)
Total Net Position		**$ 155,514,456**

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS OF THE GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2016

	(Budget*) 2017		2016	
	Amount	%	Amount	%
GENERAL FUND				
Revenues				
Federal	$ 5,906,929	2.3	$ 5,443,786	2.1
State	153,116,227	60.1	143,647,457	55.2
Local	95,628,391	37.6	110,991,759	42.7
Total Revenues	254,651,547	100.0	260,083,002	100.0
Expenditures				
Academic salaries	94,422,345	36.2	93,523,515	36.7
Classified salaries	58,385,796	22.4	54,480,399	21.4
Employee benefits	53,129,743	20.4	53,158,483	20.8
Supplies and materials	14,425,804	5.5	4,312,638	1.7
Other operating expenses	23,988,825	9.2	17,330,002	6.8
Capital outlay	11,973,282	4.6	6,679,789	2.6
Student financial aid	424,660	0.1	1,287,958	0.4
Interfund transfers, net	3,896,474	1.5	24,180,937	9.5
Other uses, net	137,213	0.1	97,978	0.1
Total Expenditures and Other Uses	260,784,142	100.0	255,051,699	100.0
INCREASE (DECREASE) IN FUND BALANCE	$ (6,132,595)	(2.4)	$ 5,031,303	1.9
ENDING FUND BALANCE	$ 45,990,904	18.1	$ 52,123,499	20.0
FULL-TIME EQUIVALENT STUDENTS	36,243.52		35,834.74	
TOTAL LONG-TERM OBLIGATIONS, INCLUDING RETIREE BENEFIT LIABILITY	N/A		$ 634,528,688	

* The year 2017 General Fund budget was adopted by the Board on September 13, 2016. The budget is included for analytical purposes and has not been subjected to audit.

See accompanying note to supplementary information.

2015 Amount	%	2014 Amount	%
$ 5,914,245	2.8	$ 6,311,922	3.2
116,102,914	54.2	100,748,574	51.8
92,340,650	43.0	87,478,069	45.0
214,357,809	100.0	194,538,565	100.0
85,771,667	39.7	79,400,532	41.3
48,483,438	22.3	43,466,247	22.5
41,231,128	19.1	37,044,723	19.3
3,992,539	1.8	3,393,514	1.8
16,347,069	7.6	15,098,056	7.9
8,168,310	3.8	3,567,867	1.9
653,743	0.3	713,127	0.4
11,243,162	5.3	9,439,534	4.8
154,197	0.1	118,657	0.1
216,045,253	100.0	192,242,257	100.0
$ (1,687,444)	(0.8)	$ 2,296,308	1.2
$ 47,092,196	22.0	$ 48,779,640	25.1
36,078.84		35,714.28	
$ 519,145,376		$ 577,550,904	

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members as of June 30, 2016.

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 District did not pass through Federal funds to subrecipients during the year ended June 30, 2016.

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 Community Colleges Chancellor's Office.

Schedule of Workload Measures for State General Apportionment

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

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

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

Reconciliation of Annual Financial and Budget Report (CCFS-311) With 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 audited 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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

Reconciliation of the Governmental Fund Balance Sheets 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.

Schedule of Financial Trends and Analysis of the General Fund

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

INDEPENDENT AUDITOR'S REPORTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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
North Orange County Community College District
Anaheim, 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 North Orange County 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 6, 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*.

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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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 6, 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
North Orange County Community College District
Anaheim, California

Report on Compliance for Each Major Federal Program

We have audited North Orange County 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.

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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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 6, 2016

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
North Orange County Community College District
Anaheim, California

Report on State Compliance

We have audited North Orange County 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.

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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 offer any Intersession Extension Programs; therefore, the compliance tests within this section were not applicable.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 6, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

CFDA Numbers	Name of Federal Programs or Cluster
84.063, 84.268, 84.007, 84.033	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,750,880
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

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

None reported.

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

None reported.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

None reported.

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

2015-001 Finding

Criteria or Specific Requirement

Education Code Section 68041: Each student enrolled or applying for admission to an institution shall provide the information and evidence of residence as deemed necessary by the governing board or District governing board, as appropriate, to determine his or her classification. The determination of a student's classification shall be made in accordance with this part and the residence determination date for the semester, quarter, or term for which the student proposes to attend an institution.

California Community College District's *Student Attendance Accounting Manual (SAAM):* Residency determination shall be made for each student at the time applications for admission is accepted, and whenever a student has not been in attendance for more than one semester or quarter. [Military personnel who become] separated from the military service, [are] required to provide evidence of intent to establish California residence for a minimum of one year prior to the residence determination date.

Condition

Significant deficiency **-** From a sample of 25 students selected for residency determination at Cypress College, one student was classified as a resident, but had no evidence establishing California residency. The student was previously a member of the military and had received a military waiver for residency. The college did not have documentation to prove that the student did qualify for California residency.

Questioned Costs

There are no questioned costs associated with this finding. The District corrected the reporting error on the Apportionment Attendance Report (CCFS-320) for the Re-Calc Period, with an 8.56 reduction in credit FTES.

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

Context

One student selected for testing did not have appropriate supporting documentation to prove California residency under a military waiver. Upon further inquiry with the District, a total of five students at Cypress College and twenty-five students from Fullerton College were given military waivers without supporting documentation to prove California residency.

Effect

The District is not in compliance with current residency determination guidelines in effect for the 2014-2015 academic year. The District is at risk of losing apportionment funding for FTES generated from students who were improperly identified as California residents.

Cause

The Veterans Access, Choice, and Accountability Act of 2014 (VACA Act) allows for reduced requirements for veterans to receive State residence status after separation from the military. This Act is effective for terms beginning after July 1, 2015. Personnel at the college campuses voted to implement the VACA Act beginning in the Spring 2015 term, prior to the effective date.

Recommendation

The District should be cognizant of changes to residency determination guidelines as released by the Chancellor's Office, including the effective dates for any new procedures. The verification of the residency status should be consistently applied and documented to ensure that only the FTES generated by California residents are included in the CCFS-320 Attendance Reports.

Current Status

Implemented.

ADDITIONAL SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General	Bookstore	Cafeteria
ASSETS			
Cash and cash equivalents	$ 150,898	$ 4,111,015	$ 2,170,381
Investments	64,186,411	-	-
Accounts receivable	21,841,441	18,815	-
Student loans receivable	484	1,038	-
Due from other funds	5,215,653	-	-
Prepaid expenses	-	222,088	-
Stores inventories	39,458	777,519	-
Total Assets	$ 91,434,345	$ 5,130,475	$ 2,170,381
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 21,629,721	$ 52,057	$ -
Due to other funds	10,512,323	3,300,899	-
Unearned revenue	7,168,802	-	-
Total Liabilities	39,310,846	3,352,956	-
FUND BALANCES			
Nonspendable	189,459	999,607	-
Restricted	5,995,138	-	-
Assigned	15,675,210	1,000,000	2,170,381
Unassigned	30,263,692	(222,088)	-
Total Fund Balances	52,123,499	1,777,519	2,170,381
Total Liabilities and Fund Balances	$ 91,434,345	$ 5,130,475	$ 2,170,381

See accompanying note to additional supplementary information.

Child Development	Bond Interest and Redemption	Capital Outlay Projects	Revenue Bond Construction	Total Governmental Funds (Memorandum Only)
$ -	$ -	$ 1,342,279	$ -	$ 7,774,573
106,912	40,745,671	55,418,485	103,895,371	264,352,850
45,941	-	36,675	33,785	21,976,657
-	-	-	-	1,522
-	-	6,335,036	-	11,550,689
-	-	-	58	222,146
-	-	-	-	816,977
$ 152,853	$ 40,745,671	$ 63,132,475	$ 103,929,214	$ 306,695,414
$ 62,160	$ -	$ 1,300,194	$ 102,049	$ 23,146,181
83,458	-	76,376	-	13,973,056
4,679	-	-	-	7,173,481
150,297	-	1,376,570	102,049	44,292,718
-	40,745,671	-	58	41,934,795
-	-	61,755,905	103,827,107	171,578,150
2,556	-	-	-	18,848,147
-	-	-	-	30,041,604
2,556	40,745,671	61,755,905	103,827,165	262,402,696
$ 152,853	$ 40,745,671	$ 63,132,475	$ 103,929,214	$ 306,695,414

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General	Bookstore	Cafeteria
REVENUES			
Federal revenues	$ 5,443,786	$ -	$ -
State revenues	143,647,457	-	-
Local revenues	110,991,759	4,998,542	350,652
Total Revenues	260,083,002	4,998,542	350,652
EXPENDITURES			
Current Expenditures			
Academic salaries	93,523,515	-	-
Classified salaries	54,480,399	1,019,476	-
Employee benefits	53,158,483	299,828	-
Books and supplies	4,312,638	3,397,042	-
Services and operating expenditures	17,330,002	114,205	-
Capital outlay	6,679,789	1,171	-
Debt service - principal	-	416	-
Debt service - interest	99,110	-	-
Total Expenditures	229,583,936	4,832,138	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	30,499,066	166,404	350,652
OTHER FINANCING SOURCES (USES)			
Operating transfers in	35,231	-	-
Operating transfers out	(24,216,168)	(4,320,702)	(75,000)
Other sources	1,132	-	-
Other uses	(1,287,958)	-	-
Total Other Financing Sources (Uses)	(25,467,763)	(4,320,702)	(75,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	5,031,303	(4,154,298)	275,652
FUND BALANCES, BEGINNING OF YEAR	47,092,196	5,931,817	1,894,729
FUND BALANCES, END OF YEAR	$ 52,123,499	$ 1,777,519	$ 2,170,381

See accompanying note to additional supplementary information.

Child Development	Bond Interest and Redemption	Capital Outlay Projects	Revenue Bond Construction	Total Governmental Funds (Memorandum Only)
$ 14,932	$ -	$ -	$ -	$ 5,458,718
92,095	251,402	3,986,023	-	147,976,977
351,025	34,470,090	7,493,406	71,995	158,727,469
458,052	34,721,492	11,479,429	71,995	312,163,164
-	-	-	-	93,523,515
391,289	-	53,613	-	55,944,777
132,634	-	14,060	-	53,605,005
23,708	-	179,232	-	7,912,620
34,405	-	1,388,571	715,340	19,582,523
-	-	8,776,880	826,316	16,284,156
-	15,475,000	-	-	15,475,416
-	2,915,039	-	-	3,014,149
582,036	18,390,039	10,412,356	1,541,656	265,342,161
(123,984)	16,331,453	1,067,073	(1,469,661)	46,821,003
123,984	-	28,291,055	-	28,450,270
-	-	-	-	(28,611,870)
-	5,744,674	-	100,000,000	105,745,806
-	-	-	-	(1,287,958)
123,984	5,744,674	28,291,055	100,000,000	104,296,248
-	22,076,127	29,358,128	98,530,339	151,117,251
2,556	18,669,544	32,397,777	5,296,826	111,285,445
$ 2,556	$ 40,745,671	$ 61,755,905	$ 103,827,165	$ 262,402,696

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND
BALANCE SHEET
JUNE 30, 2016

		Internal Service Fund
ASSETS		
Cash and cash equivalents	$	75,000
Investments		26,912,438
Accounts receivable		18,603
Due from other funds		6,832,220
Total Assets	$	33,838,261
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	$	34,599
Due to other funds		397,670
Claim liabilities		5,072,415
Total Liabilities		5,504,684
FUND EQUITY		
Retained earnings		28,333,577
Total Liabilities and Fund Equity	$	33,838,261

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2016

	Internal Service Fund
OPERATING REVENUES	
Premium contributions	$ 7,847,219
OPERATING EXPENSES	
Academic salaries	2,429
Classified salaries	152,191
Employee benefits	4,593,964
Services and other operating expenditures	1,722,037
Total Operating Expenses	6,470,621
Operating Income	1,376,598
NONOPERATING REVENUES	
Interest income	195,888
NET INCOME	1,572,486
RETAINED EARNINGS, BEGINNING OF YEAR	26,761,091
RETAINED EARNINGS, END OF YEAR	$ 28,333,577

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	$ 7,227,379
Cash payments to employees for services	(4,748,584)
Cash payments for insurance claims	(1,689,722)
Net Cash Provided from Operating Activities	789,073
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	184,934
Net change in cash and cash equivalents	974,007
Cash and cash equivalents - Beginning	26,013,431
Cash and cash equivalents - Ending	$ 26,987,438
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES	
Operating Income	$ 1,376,598
Changes in assets and liabilities:	
Due from other funds	(540,148)
Accounts payable	(6,572)
Due to other funds	(79,692)
Claim liabilities	38,887
NET CASH PROVIDED FROM OPERATING ACTIVITIES	$ 789,073

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS
BALANCE SHEET
JUNE 30, 2016

	Associated Students Trust	Student Representation Fee	Student Financial Aid
ASSETS			
Cash and cash equivalents	$ 990,815	$ 75,263	$ -
Investments	-	-	6,322,474
Accounts receivable	538	-	483,604
Student loans receivable	-	891	721,388
Due from other funds	-	-	289,323
Prepaid expenses	-	-	-
Total Assets	$ 991,353	$ 76,154	$ 7,816,789
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 1,095	$ -	$ 7,707,968
Due to other funds	29,721	-	58,821
Unearned revenue	-	-	-
Due to student groups	90,633	-	-
Total Liabilities	121,449	-	7,766,789
FUND BALANCES			
Reserved	-	-	50,000
Unreserved			
Designated	869,904	76,154	-
Total Fund Balances	869,904	76,154	50,000
Total Liabilities and Fund Balances	$ 991,353	$ 76,154	$ 7,816,789

See accompanying note to additional supplementary information.

Retiree Benefits	Other Trust	Other Agency Fund	Total
$ -	$ 5,122,524	$ 40,960	$ 6,229,562
70,578,587	5,546,253	-	82,447,314
43,940	2,653,792	19,000	3,200,874
-	774,298	10,262	1,506,839
-	34,139	70,175	393,637
-	500	-	500
$ 70,622,527	$ 14,131,506	$ 140,397	$ 93,778,726
$ 1,290	$ 576,943	$ -	$ 8,287,296
-	4,317,278	-	4,405,820
-	4,315,591	-	4,315,591
-	3,549,734	140,397	3,780,764
1,290	12,759,546	140,397	20,789,471
-	500	-	50,500
70,621,237	1,371,460	-	72,938,755
70,621,237	1,371,960	-	72,989,255
$ 70,622,527	$ 14,131,506	$ 140,397	$ 93,778,726

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS
STATEMENTS OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Associated Students Trust	Student Representation Fee	Student Financial Aid
REVENUES			
Federal revenues	$ -	$ -	$ 52,870,214
State revenues	-	-	4,564,811
Local revenues	288,387	18,362	39,286
Total Revenues	288,387	18,362	57,474,311
EXPENDITURES			
Current Expenditures			
Classified salaries	84,707	-	-
Employee benefits	19,861	-	-
Books and supplies	38,834	-	-
Services and operating expenditures	78,971	5,446	4,084
Capital outlay	-	-	-
Total Expenditures	222,373	5,446	4,084
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	66,014	12,916	57,470,227
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	(15,000)	-	(35,202)
Other uses	-	-	(57,435,025)
Total Other Financing Sources (Uses)	(15,000)	-	(57,470,227)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	51,014	12,916	-
FUND BALANCES, BEGINNING OF YEAR	818,890	63,238	50,000
FUND BALANCES, END OF YEAR	$ 869,904	$ 76,154	$ 50,000

See accompanying note to additional supplementary information.

Retiree Benefits	Other Trust	Total
$ -	$ -	$ 52,870,214
-	-	4,564,811
458,831	278,213	1,083,079
458,831	278,213	58,518,104
-	38,993	123,700
-	2,662	22,523
-	21,645	60,479
47,723	352,932	489,156
-	6,625	6,625
47,723	422,857	702,483
411,108	(144,644)	57,815,621
-	211,802	211,802
-	-	(50,202)
-	-	(57,435,025)
-	211,802	(57,273,425)
411,108	67,158	542,196
70,210,129	1,304,802	72,447,059
$ 70,621,237	$ 1,371,960	$ 72,989,255

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Fund Financial Statements

The accompanying financial statements report the governmental, proprietary, and fiduciary fund activities of North Orange County Community College District and are presented on the modified accrual basis of accounting. Therefore, some amounts presented in these financial statements may differ from amounts presented in, or used in, the preparation of the basic financial statements. This information is not a required component of the financial statements in accordance with GASB Statements No. 34 and No. 35 and is presented at the request of District management.