

RIVERSIDE COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS 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 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.

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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.

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

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

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The County Treasurer also holds investments in a separate investment agreement account other than the County Pooled Investment noted above on behalf of the District. Funds in this investment agreement are strictly related to the District's general obligation bonds.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Retirement Incentive Plans

The District has entered into various agreements with the Public Agency Retirement System (PARS) 403(b) Supplementary Retirement Plan, CalSTRS, and CalPERS to provide retirement incentives for qualifying employees. The incentives ranged from additional years of service credit to five annual payments equaling 80 percent of the employees final pay. As of June 30, 2016, the outstanding balance was \$5,413,277.

| | |
|--------------------|---------------------|
| <u>Fiscal Year</u> | |
| 2017 | <u>\$ 5,413,277</u> |

Compensated Absences

At June 30, 2016, the liability for compensated absences was \$2,783,178.

Load Banking

At June 30, 2016, the liability for load banking was \$601,418.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$3,147,095, and contributions made by the District during the year were \$1,925,914. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$478,870 and \$(579,554), respectively, which resulted in an increase to the net OPEB obligation of \$1,120,497. As of June 30, 2016, the net OPEB obligation was \$10,697,890. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Aggregate Net Pension Obligation

At June 30, 2016, the liability for the aggregate net pension obligation amounted to \$137,435,471. 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 approved Board policy.

Plan Description

The Riverside Community College District Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and one dependent. Membership of the Plan consists of 71 retirees and beneficiaries currently receiving benefits and 907 active Plan members.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed \$1,925,914 to the Plan, \$1,567,044 of which was used for current premiums and \$358,870 was the net contributions into the District's irrevocable trust with CalPERS.

Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--|-----------------------------|
| Annual required contribution | \$ 3,147,095 |
| Interest on net OPEB obligation | 478,870 |
| Adjustment to annual required contribution | (579,554) |
| Annual OPEB cost (expense) | <u>3,046,411</u> |
| Contributions made | <u>(1,925,914)</u> |
| Increase in net OPEB obligation | 1,120,497 |
| Net OPEB obligation, beginning of year | <u>9,577,393</u> |
| Net OPEB obligation, end of year | <u><u>\$ 10,697,890</u></u> |

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

| Year Ended June 30, | Annual OPEB Cost | Actual Contribution | Percentage Contributed | Net OPEB Obligation |
|------------------------|---------------------|------------------------|---------------------------|------------------------|
| 2014 | \$ 2,960,168 | \$ 1,159,902 | 39% | \$ 7,844,898 |
| 2015 | 2,935,893 | 1,203,398 | 41% | 9,577,393 |
| 2016 | 3,046,411 | 1,925,914 | 63% | 10,697,890 |

RIVERSIDE COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Funding Status and Funding Progress

The schedule of funding progress as of the most recent actuarial valuation is as follows:

| | |
|---|----------------------|
| Actuarial Accrued Liability (AAL) | \$ 25,347,991 |
| Actuarial Value of Plan Assets | - |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>\$ 25,347,991</u> |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 0.00% |
| Covered Payroll | <u>N/A</u> |
| UAAL as Percentage of Covered Payroll | <u>N/A</u> |

The above noted actuarial accrued liability was based on the July 1, 2015, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2015, actuarial valuation, the unit credit cost method was used. Under this method, there are no liabilities dependent on salary, therefore, no salary increase rate is assumed. The actuarial assumptions include healthcare cost trend rate of seven percent trending down to an ultimate five percent increase. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 29 years. The actuarial value of assets was not determined in this actuarial valuation. As of June 30, 2016, the District finances its OPEB contributions using a pay-as-you-go method as well as payroll subsidies deposited into an irrevocable trust with CalPERS. The trust was established in March 2016 and therefore was not a component of the July 1, 2015 actuarial valuation. At June 30, 2016, the irrevocable trust with CalPERS held assets in the amount of \$358,870.

REQUIRED SUPPLEMENTARY INFORMATION

RIVERSIDE 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) - Unit Credit Cost Method (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|--|--|--|---------------------------------|--------------------------------|--|
| July 1, 2011 | \$ - | \$ 24,642,278 | \$ 24,642,278 | 0.00% | N/A | N/A |
| July 1, 2013 | - | 24,161,707 | 24,161,707 | 0.00% | N/A | N/A |
| July 1, 2015 | - | 25,347,991 | 25,347,991 | 0.00% | N/A | N/A |

See accompanying note to required supplementary information.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

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

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| CalSTRS | | |
| District's proportion of the net pension liability | <u>0.1322%</u> | <u>0.1408%</u> |
| District's proportionate share of the net pension liability | \$ 89,023,018 | \$ 82,251,502 |
| State's proportionate share of the net pension liability associated with the District | <u>47,083,363</u> | <u>49,667,008</u> |
| Total | <u>\$ 136,106,381</u> | <u>\$ 131,918,510</u> |
| District's covered - employee payroll | <u>\$ 63,394,932</u> | <u>\$ 62,691,527</u> |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | <u>140.43%</u> | <u>131.20%</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>74%</u> | <u>77%</u> |
| CalPERS | | |
| District's proportion of the net pension liability | <u>0.3284%</u> | <u>0.3371%</u> |
| District's proportionate share of the net pension liability | <u>\$ 48,412,453</u> | <u>\$ 38,273,998</u> |
| District's covered - employee payroll | <u>\$ 36,230,238</u> | <u>\$ 35,391,662</u> |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | <u>133.62%</u> | <u>108.14%</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>79%</u> | <u>83%</u> |

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

See accompanying note to required supplementary information.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

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

| | 2016 | 2015 |
|--|----------------------|----------------------|
| CalSTRS | | |
| Contractually required contribution | \$ 7,559,706 | \$ 5,629,470 |
| Contributions in relation to the contractually required contribution | 7,559,706 | 5,629,470 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| District's covered - employee payroll | <u>\$ 70,453,924</u> | <u>\$ 63,394,932</u> |
| Contributions as a percentage of covered - employee payroll | <u>10.73%</u> | <u>8.88%</u> |
| CalPERS | | |
| Contractually required contribution | \$ 4,655,732 | \$ 4,264,299 |
| Contributions in relation to the contractually required contribution | 4,655,732 | 4,264,299 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| District's covered - employee payroll | <u>\$ 39,288,878</u> | <u>\$ 36,230,238</u> |
| Contributions as a percentage of covered - employee payroll | <u>11.85%</u> | <u>11.77%</u> |

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

See accompanying note to required supplementary information.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

Schedule of District Contributions

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

Changes in Benefit Terms

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

Changes in Assumptions

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