FOOTHILL-DE ANZA
Community College District

# SOUND FISCAL MANAGEMENT
## Self-Assessment Checklist

**For Fiscal Year Ended June 30, 2017**
**(Completed February 2018)**

1. **Deficit Spending:** Is this area acceptable? Yes

***Is the district spending within their revenue budget in the current year?***
The California Community Colleges System Office uses the financial reports from our unrestricted general fund that encompass both the General Purpose Fund (Fund 114) and the Self-Sustaining Fund (Fund 115) for its analysis. The district focuses on the General Purpose Fund because this fund captures most of the district's operating revenue and expenditures.

This Sound Fiscal Management Self-Assessment Checklist summarizes activities in the General Purpose Fund for fiscal year 2016-17 and also projects balances for the fiscal year ending June 30, 2018.

For fiscal year 2016-17, the district projected a $6.3 million deficit of ongoing revenue versus planned expenditures. This structural deficit was permitted with the plan to close the gap between projected revenues and expenditures with one-time funds from the district's $32.4 million Stability Fund.

The district ended fiscal year 2016-17 with a reduction of $9.1 million net change in fund balance due primarily to the projected $6.3 million structural deficit and the reliance on one-time dollars to close part of the structural deficit.

Due to the state's Senate Bill 361 (SB361) stabilization funding formula, the district received full FTES (Full-Time Equivalent Student) apportionment funding from the state even though the district experienced a dramatic dip of 1,170 FTES in achieving its target base at year-end. Carefully managed one-time stability funds have allowed the district to reasonably delay implementing cuts to achieve a structurally balanced spending plan/budget to this point. But by the end of fiscal year 2016-17 and over the 2017 summer months, the district concluded that a specific plan to reduce expenditures to match reduced revenues would be necessary and ready to begin implementation in the new 2017-18 fiscal year.

At the Board of Trustees August 2017 Study Session, the vice chancellor, Business Services presented three-year budget simulations and a plan to balance the projected structural budget deficit within that time frame. It involves cutting ongoing expenses by a total of $10 million;

$2 million in 2017-18, $3 more million in 2018-19, and finally $5 million more in 2019-20. The simulation demonstrated that making these expenditure reductions while maintaining projected enrollments and associated apportionment, the structural deficit would be all but balanced by 2019-20.

For fiscal year 2017-18, the district has projected a structural budget deficit of approximately $10.4 million due to the reduced apportionment revenue and approximately $2.1 million in additional expenses for employer funded STRS/PERS contributions. The projected structural budget deficit is a planned spend-down of district Stability Fund reserves combined with a commitment to the aforementioned three-year plan to balance the structural deficit. The long-term strategies for the district will be to stabilize enrollments and the associated apportionment revenue, avoid future structural budget deficits, and maintain a strong Stability Fund reserve to offset any unforeseen revenue decline or unexpected/sudden significant expenditure increases. The approximate $26.1 million Stability Fund held in reserve and utilized at the direction of the Board of Trustees will be utilized to close the gap between revenues and expenses until a structurally balanced budget is secured.

As of second quarter, the projected balance for the stability fund at the end of fiscal year 2017-18 is approximately $15.8 million. The district projects to have approximately $13.1 million in unrestricted college/Central Services carryover, and restricted district carryover funds, and the requisite 5% General Fund Catastrophic Reserve (approximately $10 million). The state did provide a modest 1.56% COLA and a base apportionment increase of $4.2 million for Foothill-De Anza Community College District in the 2017-18 budget. However, the reduction in apportionment of approximately $6 million due to the enrollment decline in 2016-17 (impacting the 2017-18 budget revenue), virtually negated the new revenue the district might have been able to utilize to address the majority of the projected structural deficit. Therefore, the district did not realize an additional revenue source to pay for the annual inflationary increases experienced on an ongoing basis for existing obligations to our employee compensation structure such as step/column, professional awards, increased health benefit premiums, and the significant increases to STRS and PERS employer contributions.

***Has the district controlled deficit spending over multiple years?***

Yes. In 2014-15, the district experienced a positive net change in fund balance of $4.6 million, primarily due to increased non-resident tuition, a one-time mandated cost reimbursement, and a prior year apportionment adjustment; additionally, in accordance with GASB Statement No. 34, an adjusting entry to recognize the short-term liability of compensated absences resulted in a reduction of $3.4 million in the salaries expense category.

In 2015-16, the district started the year with a $3.3 million structural budget surplus. However, contract negotiations were underway with all bargaining units and after the retroactive settlement was officially approved, the structural surplus was negated. The district still achieved a year-over-year fund balance increase of approximately $9.4 million due to the one-time allocation of mandated cost reimbursement from the state of $15.1 million.

As noted earlier, the district approved the 2016-17 adopted budget with a structural budget deficit of $6.3 million (projected ongoing and one-time revenues against projected ongoing

expenses). The projected structural budget deficit was part of a planned spend-down of the robust district reserves ($58 million).

For fiscal year 2017-18, the district has projected a $10.4 million structural deficit and spend down of the Stability Fund reserves. As previously addressed, the Board of Trustees has approved a plan to balance the projected $10 million structural deficit within the next three years through targeted budget expense reductions by both the college's and Central Services. Due to the most recent enrollment data available as of the 2017-18 Q-2 report which projects another decline in enrollment for this fiscal year of approximately 900 FTES, the office of district Business Services will be producing updated budget simulations that will inform the district as to what additional expenditure reductions will likely be necessary to close the projected structural deficit within the agreed upon three-year time frame.

***Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions?***

Yes. During difficult budget years, the district reduces ongoing expenditures and sets aside one-time funds (e.g., the Stability Fund) to bridge budgeted deficits. At the same time, the district revises ongoing revenue and expenditure estimates to reflect changes as anticipated. The Board and the administration are keenly aware of the one-time nature of the stability fund as a short-term solution. They recognize the need to manage the size of the operating deficit that the stability fund backfills to maximize its availability. The stability fund serves as a valuable one-time strategic resource, providing time for planning to restore ongoing revenue or make permanent reductions to ongoing expenditures while delaying the impact on district operations and student support. Budgets are revised accordingly as new economic information becomes available.

***Are district revenue estimates based upon past history?***

District revenue estimates are based on a combination of: 1) enrollment estimates generated from collaboration between the district Business Services office and the campuses' enrollment management teams, 2) historical data, 3) the campuses' input on locally generated income, and 4) state assumptions on COLA, growth, any increases to base funding, the state funding formula (SB361), and lottery estimates, etc.

***Does the district automatically build in growth revenue estimates?***

No. The district builds the adopted budget's revenue based on the prior year's actual FTES earned. Growth or restoration funding is not included in the adopted budget until after it has been earned.

Additionally, when the district reports FTES below its base for a given year and receives stabilization funding (per SB 361), financial reports presented to the Board and district reflect the level of stabilization funding as one-time dollars for that year. In this way, commensurate with the lower level of FTES reported, it is clear for planning purposes that our true on-going apportionment dollars will be reduced the following year in our base apportionment allocation from the state.

2. **Fund Balance:** Is this area acceptable?

Yes, the district maintains and monitors a reserve fund (the Stability Fund) in addition to the recommended 5% catastrophic contingency fund. The stability fund is reviewed and funded on an annual basis contingent upon an external fiscal threat analysis and available data on future state funding allocations. In addition, the colleges and Central Services consistently maintain carryover fund balances totaling approximately $12 million annually.

***Is the district's fund balance stable or consistently increasing?***
Yes, the district's undesignated fund balance in the General Purpose Fund is stable, varying between $16 million and $36 million in excess of the 5% contingency reserve for the past five years (see attachment). This increase in the General Purpose Fund balance is intentional and a planned outcome of hard work and dedication by many departments, reductions in operating expenses, restricted spending on discretionary "B" budget, and savings from positions held vacant throughout the year. These funds are designated to close operating deficits on a one-time basis, to preserve our staffing levels as long as possible, and to be available to offset any cuts on a one-time basis in future fiscal years. For the 2016-17 fiscal year, the fund balance was projected to decrease between $5 to $8 million based on the planned spend down of the fund through the approval of employee compensation increases provided in fiscal year 2015-16 and added operational expenses. The final fund balance reduction was $9.1 million.

***Is the fund balance increasing due to ongoing revenue increases and/or expenditure reductions?***
See question and answer above.

3. **Enrollment:** Is this area acceptable?
No. Enrollment has experienced a continued decline dating back to fiscal year 2009-10.

***Has the district's enrollment been increasing or stable for multiple years?***
District enrollment declined in 2013-14, by 330 FTES from 2012-13. Enrollment again declined slightly in 2014-15, by 88 FTES from 2013-14. This modest decline seemed to indicate the FTES decline due to workload reduction and the constraints imposed by course repeatability had finally established the "new norm" in terms of enrollment demand from our traditional service areas.

Disappointingly, 2015-16 enrollments declined another 210 FTES from prior year totals. Since this was still a modest decline, the district further committed to focusing efforts to restore lost FTES from the prior few years.

For fiscal year 2016-17, the district experienced a highly unexpected FTES decline of 1,176 FTES for the year resulting in an approximate $6 million reduction to revenue. Productivity targets at both colleges were allowed to drop over the course of the year in an effort to restore lost FTES to our base. But increased efforts in recruitment, marketing, and extensive contact with currently enrolled students did not mitigate the decline.

As of the P-1 report for 2017-18, the district is very disappointingly experiencing another dramatic projected decline of approximately 900 FTES for the year. While the colleges are making all best efforts to restore some of the FTES decline before the final attendance reporting period, we will be reflecting the FTES decline and the corresponding reduction in apportionment revenue in the 2018-19 Adopted Budget. This will result in an approximate $4.5 to $5 million reduction to next year's revenue.

The district has adequate dollars ($23.7 million) in the stability fund to offset the revenue loss for 2018-19. **However, the district's plan to balance the structural deficit within the next three years and still maintain an acceptable balance within the Stability Fund, will need to be updated and implemented expeditiously to account for this new, unanticipated loss of ongoing revenue.**

***Are the district's enrollment projections updated at least semiannually?***
Yes, enrollment projections are reviewed and updated at the beginning of every academic quarter.

***Are staffing adjustments consistent with the enrollment trends?***
The Board has previously approved a "growth model" which funds additional positions, both teaching and support staff, in direct proportion to FTES growth. While the law requires an increase in full-time faculty consistent with FTES increases, the district's model uses the same rationale for growth and reduction of non-teaching positions.

Conversely, the district demonstrated its commitment to adjusting staffing levels to available resources during the dramatic initial loss of FTES in 2011-12 and 2012-13 after workload reductions and repeatability restrictions were imposed by the state. Given the dramatic reduction in FTES in 2016-17 and projected in 2017-18, and as a function of **the three-year plan to eliminate the structural budget deficit**, the district will again be forced to adjust staffing levels to become consistent with how much apportionment is earned by the FTES reported.

***Does the district analyze enrollment and Full-Time Equivalent Students (FTES) data?***
Yes, every quarterly report includes an analysis of FTES and productivity. In addition to this report to the Board, the Office of Institutional Research generates frequent reports, which are shared with the enrollment management teams and senior staff at both campuses. The Office of Institutional Research has recently been developing some new (and extremely well received by the colleges) productivity reports that assist the deans in class schedule decisions to maximize highly enrolled classes and for offering the most in-demand courses. These reports are generated beginning several weeks before each quarter in order to facilitate trends analysis and to display comparative data. District staff also have access to an FTES database. This database shows enrollment trends down to the individual class and instructor level and can be aggregated by department, division, and college.

***Does the district track historical data to establish future trends between P-1 and Annual for projection purposes?***
Yes, the Chief Instructional Officer at each college is responsible for forecasting winter and

spring enrollment at P-1. It is through this analysis that the "annualizer" is adjusted on the Apportionment Attendance Reports (CCFS-320) to ensure consistency with projections.

***Has the district avoided stabilization funding?***
No. Dating back to fiscal year 2012-13, we received stabilization funding of $7.5 million due to a decline of 1,683 FTES. In 2013-14, we experienced a decline of 330 FTES and, in 2014-15, a further small decline of 88 FTES, triggering stabilization funding again.

In 2015-16, we experienced a modest decline of 210 FTES. The district was unpleasantly surprised by another FTES decline of 1,176 in 2016-17 resulting in stabilization funding for both years. As of P-1 for the 2017-18 fiscal year, we are projecting another significant decline of approximately 900 FTES compared to the prior year, which will again trigger stabilization funding for fiscal year 2017-18.

Both colleges are developing schedules to maintain productivity at the budgeted level, and management efforts are focused on maximizing FTES restoration.

**Unrestricted General Fund Balance:** Is this area acceptable? Yes
(See response above to #2. Fund Balance)

***Is the district's unrestricted general fund balance consistently maintained at or above the recommended minimum prudent level (5% of the total unrestricted general fund expenditures)?***
Yes, the district's unrestricted general fund balance has consistently been maintained above the recommended minimum prudent level of 5%. The California Community Colleges System Office requires that we report the unrestricted general fund balance and other required financial information in the Annual Financial and Budget Report (CCFS-311). The unrestricted general fund balance includes the General Purpose Fund (Fund 114) and the Self-Sustaining Fund (Fund 115). The unrestricted general fund balances for the past five years are shown below:

| Fiscal Year | Actual |
|---|---|
| 2012-13 | 29.6% |
| 2013-14 | 28.7% |
| 2014-15 | 30.0% |
| 2015-16 | 31.3% |
| 2016-17 | 27.4% |

***Is the district's unrestricted fund balance maintained throughout the year?***
Yes, the district's unrestricted fund balance was maintained at or above 27% of the total unrestricted general fund expenditures in any given month throughout fiscal year 2015-16. It is our ongoing strategic plan to retain a portion of the general fund balance as a stability fund to offset unforeseen operational expenses and to delay budget reductions while the district adjusts expenditures to revenues. Consistent with the stability fund's purpose, the $9.1 million operating deficit incurred in 2016-17 was absorbed by the stability fund.

4. **Cash Flow Borrowing:** Is this area acceptable? Yes

***Can the district manage its cash flow without inter-fund borrowing?***
Yes, during the past six years, the district maintained a positive cash flow in the unrestricted general fund without inter-fund borrowing.

***Is the district repaying TRANS and/or borrowed funds within the required statutory period?*** The district has not borrowed funds through a TRANS since fiscal year 1996-97 when it issued a TRAN in the amount of $4.4 million. The district did not issue a TRAN in fiscal year 2016-17.

5. **Bargaining Agreements:** Is this area acceptable? Yes

In fiscal year 2015-16 the state budget included a 1.02% cost-of-living revenue adjustment. The Board agreed to a 1.02% COLA, a 1.98% salary adjustment (both retroactive to July 1 for the 2015-16 year), and several additional compensation increases for all employee groups. This was in recognition of several years of zero COLA adjustments to the bargaining unit salary schedules and because the district has maintained a significant unrestricted general fund balance to offset increased spending until revenues match expenses. The bargaining unit agreement spanned both fiscal years 2015-16 and 2016-17 and included a salary adjustment of 0.60% (equivalent to the Governor's January Budget proposal of 0.47% COLA plus an additional 0.13% effective 07/01/2016) with the option to re-open compensation negotiations for 2016-17 if the district received additional unrestricted funding beyond that proposed in the governor's January budget. Ultimately, zero COLA and no new unrestricted base funding was approved in the final fiscal year 2016-17 state budget, so no additional compensation was considered.

Bargaining unit negotiations for fiscal year 2017-18 are ongoing and will not likely be concluded before later in the spring. District administration has fully advised all constituencies and bargaining unit leadership of the challenge of managing the structural budget deficit and the dramatic enrollment decline in 2016-17 and now again in 2017-18. As previously noted, the base apportionment increase and 1.56% COLA provided in the 2017-18 budget will be more than off-set by the revenue loss due to the enrollment decline in 2016-17. Further, any potential increase in revenue in the proposed 2018-19 budget will also likely be completely negated by the projected 900 FTES decline for 2017-18.

Since the new CalPERS administered health benefits plan was implemented in July 2012, as recommended by the Joint Labor Management Benefits Committee (JLMBC), and approved by the bargaining units, plan rates are now assessed by CalPERS and are more stable/predictable than when the district was fully self-insured for the health benefits program. Consequently, our budgeted health benefits expense category has been predictably stable for the past several years.

6. **Unrestricted General Fund Staffing**: Is this area acceptable? Yes

***Is the district ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses?***
Permanent staffing is managed through position control and is budgeted from ongoing revenue.

As noted above, in the spring of 2016, the Board of Trustees approved a 1.02% COLA, a 1.98% salary adjustment, and several additional compensation increases for all employee groups retroactive to July 1, 2015 for fiscal year 2015-16 and fiscal year 2016-17. The district was able to approve the additional COLA and compensation packages as part of a planned spend down to robust reserves that will cover the increase for several years. However, this plan did not take into account the unanticipated enrollment decline in 2016-17 and now again projected for 2017-18.

It is fully anticipated that implementation of the aforementioned three-year plan to balance the structural deficit will require elimination of a significant number of full time positions currently included in the Adopted Budget. As of the writing of this report, the specifics of which and how many positions will need to be eliminated is not yet specified. The colleges and Central Services have received their budget reduction targets and are developing the details of how the reductions will be made to begin implementation in the 2018-19 Adopted Budget. As noted earlier, the 2018-19 Adopted Budget will reflect $5 million in ongoing budget cuts and the 2019-20 Adopted Budget will include an additional $5 million in budget cuts to reach the $10 million target established by the Board. However, the target cuts will likely require an increase to recognize the 2017-18 enrollment decline and corresponding reduction in 2018-19 apportionment.

As a matter of practice for funding new positions that are not backed with new ongoing revenue, other operational budgets are reduced to fund the new ongoing contract salary positions and the one-time carry-over or stability fund reserves are used to replenish the operational accounts on a one-time basis. Additionally, the colleges and Central Services have committed to cut expenses in other areas of the budget as required to balance the budget in the out years.

***Is the percentage of district general fund budget allocated to salaries and benefits at or less than the statewide average (i.e., the statewide average for 2003-04 is 85%)?***
Yes. For fiscal year 2017-18, the district is budgeting 82.7%.

7. **Internal Controls**: Is this area acceptable? Yes

***Does the district have adequate internal controls to ensure the integrity of the general ledger?***
Yes, in addition to the annual financial audit report, which includes a report on internal control over financial reporting and tests of compliance with certain provisions of laws,

regulations, contracts, grant agreements and other matters, the district contracted with independent certified public accounting firms over the past years to perform operational reviews on Measure E Overhead, De Anza College Cash Handling Procedures, District Procurement Card, Foothill College Cash Handling Procedures, Measure C Overhead, Police Parking Fees Cash Handling Procedures, De Anza College Facilities Rental Cash Handling Procedures, Foothill College Cashiering Services Petty Cash/Change Fund, ERP Security, and Foothill College Kinesiology, Facilities Rentals, and Cash Handling Procedures. In fiscal year 2014-15, the district contracted for an operational review of payments related to independent contractors, student employment, awards, and scholarships.

In fiscal year 2016-17, the District performed an evaluation of the Measure C Bond accounting practices with assistance from an outside consultant to ensure continuous compliance, streamlining of processes and efficient use of resources as the bond program approached close-out. Recommendation for improvements are in process and slated to be fully implemented by June 30, 2018.

***Does the district have adequate internal controls to safeguard the district's assets?***
Yes, the district has written cash handling procedures for De Anza College and Foothill College as well as for district petty cash to safeguard cash. In addition to the required annual audit, the district goes above that requirement and contracts for operational reviews at its various cash collection points. The district also has a Board Policy and an Administrative Procedure on Capitalization of District Property and on Disposal of District Property.

8. **Management Information Systems:** Is this area acceptable? Yes

All modules of the Ellucian/Banner Enterprise Resource Planning (ERP) system have been fully implemented and are functioning satisfactorily, including: Web Portal, Finance, Human Resources and Payroll, Financial Aid, Student, Advancement, Document Management System, and Degree Planning and Audit.

Custom reports for all modules are maintained and continue to be developed, providing the specialized data needed for our department functions. Management is confident the continued creation and refinement of custom reports from Ellucian and the district's Educational Technology Services (ETS) division are meeting all critical data reporting requirements. Management has a high degree of confidence in the integrity and accuracy of the data throughout the ERP. District administration, working closely with ETS and external consultants, continues to refine data collection and reporting processes to increase the return on investment from the ERP.

The ETS management team, along with management and stakeholders from throughout the district, have begun a major upgrade to the ERP system that is slated for completion in December of 2018. The ERP will move to the Ellucian "cloud" environment supported by Amazon Web Services. This move will result in a lowering of the total cost of ownership to maintain the ERP while improving reliability and increasing information and application security. This will ensure the district continues to have access to the most advanced data

collection and reporting features available from Ellucian.

9. **Position Control:** Is this area acceptable? Yes

***Is position control integrated with payroll?***
Yes, there is a very strong position control system in place that requires the assignment of a unique position number and designated funding for each position hired.

***Does the district control unauthorized hiring?***
Yes, all positions to be re-filled, or newly created positions, are assigned a position control number. Each "staffing requisition," which is necessary to start the hiring process, must be approved by Chancellor's Staff and must have a valid position control number.

***Does the district have controls over part-time academic staff hiring?***
Yes. Each year, the district budgets the dollar amount to be allocated for part-time faculty based on total FTES, less the number of full-time faculty, and driven by the agreed-upon productivity numbers. The colleges are responsible for developing a schedule of classes aligned with the agreed-upon budget. Changes in FTES targets or productivity budgets need to be agreed upon at the district level so budgets can be adjusted accordingly.

Due to the multi-year decline of enrollments (between 2011-12 and 2016-17), the district has established additional funds (one-time funds identified as Enrollment Stimulus funding) for use by the colleges to hire additional part-time faculty and offer more sections, even at the sacrifice of reaching established productivity targets. However, as of 2017-18, the district has determined that offering more class sections with the corresponding reduced productivity has not resulted in improved enrollments. To the contrary, 2016-17 enrollments declined significantly. The district has requested the colleges work to achieve their productivity targets to stay within the established part-time faculty budgets while maximizing enrollments as much as possible.

While there has been no formal administrative procedure in recent years for penalties or incentives if the colleges varied from FTES or productivity targets, there has been continuous adherence to these budgets with very little variance.

**Budget Monitoring:** Is this area acceptable? Yes

***Is there sufficient consideration given to the budget, related to long-term bargaining agreements?***
Yes. (See Question 6, above.)

***Are budget revisions completed in a timely manner?***
Yes, budget revisions are processed within the fiscal month they are received and are subject to the board's review and approval with each quarterly report.

***Does the district openly discuss the impact of budget revisions at the board level?***
Yes, the board receives a complete reconciliation of all revisions and transfers processed in

each quarter, and the Vice Chancellor of Business Services, Executive Director of Fiscal Services or the Director of Budget Operations responds to inquires as requested.

***Are budget revisions made or confirmed by the board in a timely manner after the collective bargaining agreements are ratified?***
Yes, the board receives and approves a complete reconciliation of all revisions and transfers processed in each quarter, as well as the Quarterly Financial Status Reports (CCFS-311Q), which includes a summary of costs due to collective bargaining agreements.

***Has the district's long-term debt decreased from the prior fiscal year?***
No, in November of 2016, the district issued certificates of participation (COPs) in the amount of $27.76 million. The additional new long-term debt is to refinance existing COP and lease debt and to finance an additional $22 million to pay for the cost of a major seismic renovation to the De Anza College Flint Center garage.

Due to the availability of lower interest rates, the annual debt service for the existing COP payments was lowered by $267,000 annually. The prior COP debt will still be retired on the same schedule within the 2021-22 fiscal year. The finance schedule for the new money extends to the 2041-42 fiscal year for full repayment at approximately $1.6 million annually.

***Has the district identified the repayment sources for the long-term debt?***
Yes, the long-term debt is financed through both special revenue sources and budgeted general fund monies. The parking structure debt is financed through parking fee revenue and general funds budgeted annually. The Foothill College Campus Center debt and the De Anza College Campus Center debt are financed through campus center use fees. The Foothill College Bookstore equipment acquisition is financed through the Foothill College Bookstore operations.

***Does the district compile annualized revenue and expenditure projections throughout the year?***
Yes, included in each quarterly report for each fund, annualized projections are presented to measure budget performance and project ending fund balance for each fund. The District Budget Committee and the Audit and Finance Committee review revenue and expense projections at the end of each quarter before the Board of Trustees approves them in the quarterly reports.

10. **Retiree Health Benefits:** Is this area acceptable? Yes

The most recent actuarial report, dated April 16, 2016, represented a valuation of our retiree health program as of July 1, 2015. The actuarial report was in effect for fiscal year 2016-17 audited financial statements as reflected in the June 30, 2017 audit report. We are required to update this report every two years.

On November 24, 2017, the new actuarial report was prepared with a valuation date of June 30, 2017 and calculated the district's Other Post-Employment Benefits (OPEB) liability at

$107.7million in accordance with the new GASB 74 and 75 standard, which moves OPEB accounting and financial reporting toward the same model as pensions under GASB 67 and 68. The two main changes that affect the district's planning and financial reporting are recognizing the net OPEB liability on the balance sheet of the audited financial statements and the elimination of the Annual Required Contribution (ARC) as a measurement of funding the liability. The new reporting standard will be reflected in the June 30, 2018 audited financial statements.

***Does the district have a plan for addressing the retiree benefits liabilities?***
Yes, the Board of Trustees adopted a plan at the November 6, 2006 board meeting to fully fund the ARC as calculated in the August 2006 actuarial study. The current OPEB funding plan will be reviewed considering the new GASB 74 and 75 impacts. Any potential proposed adjustments would be recommended to the Board of Trustees to ensure the district meets the long-term funding objectives.

In 2009, after an exhaustive evaluation process, the district opted to leave the Community College League of California (CCLC) Retiree Joint Powers Authority and join the California Employers' Retiree Benefit Trust (CERBT), an irrevocable trust, as sponsored by the California Public Employees Retirement System (CalPERS). In January 2010, the district transferred all funds from the CCLC program to a newly established CERBT account. As of June 30, 2017, the District's CERBT account balance was $16,950,906 and for the last three years, the district has contributed $1.5 million toward its OPEB funding plan. When applied to the previously cited OPEB liability of $107.7 million, the CERBT balance reduces the liability to the net amount of $90.7 million.

**11. Leadership/Stability:** Is this area acceptable? Yes

***Has the District experienced recent turnover in its management team (including the Chief Executive, Chief Business Officer, and Board of Trustees)?***
No. Dr. Miner became chancellor of the Foothill-De Anza Community College District on August 1, 2015. She has worked as a higher education administrator since 1977 and in the California Community Colleges since 1979. She has held numerous administrative positions in instruction, student services, and human resources at City College of San Francisco, the California Community Colleges Chancellor's Office, De Anza College, and most recently as president of Foothill College from 2007 through 2015. All other members of the Chancellor's Staff have held their positions since at least 2012.

The Board's two newest trustees, Landsberger and Wong, elected in November 2016 have now served for over a full year. They have integrated well with the three senior trustees that have served on the Board for over ten years.

**12. District Liability:** Is this area acceptable? Yes

***Has the district performed the proper legal analysis regarding potential lawsuits that***

***may require the district to maintain increased reserve levels?***
The Risk Management Department is the centralized location of risk management activity that is decentralized across the district. This office reports directly to the Director, Purchasing. By maintaining regular communication with administrators throughout the district, the Director, Risk Management works to identify and mitigate potential liabilities and/or litigation. For the most part, such situations are prevented from becoming legal actions by careful decision-making, foresight and proactive procedures. The number and cost of non-litigated claims against the district was small. External legal counsel is engaged when necessary. The district, in the areas of human resources issues and construction management, maintains relationships with specialized legal counsel.

**13. Reporting:** Is this area acceptable? Yes

***Has the district filed the annual audit report with the Systems Office on a timely basis?***
Yes, and for fiscal years 2012-13 through 2016-17, the annual audit report has been brought first to the Audit and Finance Committee and then to the Board of Trustees in the month of December, following the end of the fiscal year.

***Has the district taken appropriate actions to address material findings cited in their annual audit report?***
Yes, each year we discuss any audit findings and recommendations of the fiscal year just ended with the Audit and Finance Committee. Subsequently, in March of every year, we provide the Audit and Finance Committee with the status of the management's response and action taken to correct these findings.

The external auditor's report issued a clean, unmodified opinion for all accounting activity regarding financial and compliance reporting for fiscal years 2014-15 and 2016-17. In fiscal year 2014-15 there were no findings or management recommendations. In fiscal year 2015-16, there was only one finding noted in the audit report for To Be Arranged (TBA) courses and one management recommendation regarding Accounts Payable reporting. De Anza College provided a response to the finding and has implemented the appropriate procedures to address how TBA courses and their related hours are captured and reported. The district has also identified a corrective action plan to remedy the Accounts Payable reporting exception.

In 2016-17, there was only one finding noted which was a repeat finding for TBA hours for which De Anza provided a response to outline how they will remedy the compliance exception in the future.

In their required communication to the Board of Trustees via the governance letter, the auditors included their observations and recommendations to management that were not significant enough to be cited as an audit finding. There were four areas included in the letter, one for Foothill College regarding Instructional Service Agreements (ISAs) and three for the District relative to review and approval processes, wire transfers and master vendor file maintenance. Both the District and Foothill College are evaluating the observations to

determine how to best operationalize the recommendations.

***Has the district met the requirements of the 50 percent law?***

Yes, for fiscal years 2012-13 through 2016-17, the district has met the requirements of the 50% law. The 2016-17 percentage (53.82%) was slightly lower than 2015-16 because prior year totals contained negotiated current year and retroactive instructional salary and benefit cost increases and higher CalSTRS employer contribution rates that translated to increased costs required to be recognized in accordance with GASB Statement No. 68.

The percentage of Instructional Salary Costs to Current Expense of Education for each of these years is:

| Fiscal Year | Percentage |
|---|---|
| 2012-13 | 51.45% |
| 2013-14 | 52.78% |
| 2014-15 | 54.16% |
| 2015-16 | 55.52% |
| 2016-17 | 53.82% |

***Have the Quarterly Financial Status Reports (CCFS-311Q), Annual Financial and Budget Reports (CCFS 311), and Apportionment Attendance Reports (CCFS-320) been submitted to the System Office on or before the stated deadlines?***

Yes, for the years 2012-13 through 2016-17, each of these quarterly and annual reports has been submitted to the System Office by the required deadlines.