

**ANTELOPE VALLEY  
COMMUNITY COLLEGE DISTRICT**

**PUBLIC ENTITY INVESTMENT  
TRUST FINANCIAL STATEMENTS**

June 30, 2016

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT  
PUBLIC ENTITY INVESTMENT TRUST

FINANCIAL STATEMENTS  
June 30, 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
FINANCIAL STATEMENTS:	
STATEMENT OF TRUST NET POSITION .....	3
STATEMENT OF CHANGE IN TRUST NET POSITION .....	4
NOTES TO FINANCIAL STATEMENTS .....	5
REQUIRED SUPPLEMENTARY INFORMATION:	
SCHEDULE OF FUNDING PROGRESS .....	9
SCHEDULE OF EMPLOYER CONTRIBUTIONS .....	9
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	9
OTHER REPORTS:	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	10

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Antelope Valley Community College District  
Lancaster, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of Antelope Valley Community College District Public Entity Investment Trust (the "Trust"), a fiduciary fund of Antelope Valley Community College District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Trust's 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 misstatement, 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. 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 entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

---

(Continued)

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Antelope Valley Community College District Public Entity Investment Trust, a fiduciary fund of Antelope Valley Community College District, as of June 30, 2016 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1, the financial statements present only the District's Trust and do not purport to, and do not, present fairly the financial position of the Antelope Valley Community College District as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information, such as the Schedule of Funding Progress and Schedule of Employer Contributions on pages \_\_ be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Trust. 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 internal control over financial reporting or on compliance for the Trust. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Antelope Valley Community College District's internal control over financial reporting and compliance for the Trust.



Crowe Horwath LLP

Sacramento, California  
December 21, 2016

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT  
PUBLIC ENTITY INVESTMENT TRUST  
STATEMENT OF TRUST NET POSITION  
June 30, 2016

---

**ASSETS**

Cash	\$ 1,523
Investments:	
Mutual funds – equity	415,784
Mutual funds – fixed income	294,503
Mutual funds – real estate	<u>53,529</u>
 Total assets	 <u>765,339</u>

**LIABILITIES**

Accounts payable	<u>\$ 1,433</u>
------------------	-----------------

**NET POSITION**

Net position held in trust for other postemployment benefits	<u>\$ 763,906</u>
--	-------------------

---

See accompanying notes to financial statements.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT  
PUBLIC ENTITY INVESTMENT TRUST  
STATEMENT OF CHANGE IN TRUST NET POSITION  
For the Year Ended June 30, 2016

---

**Additions**

Employer contributions	\$ 947,879
Net investment income:	
Dividends and other income	28,530
Realized and unrealized losses, net	(31,213)
Investment fees	<u>(7,637)</u>
Total additions	<u>937,559</u>

**Deductions**

Retiree benefits	<u>560,766</u>
------------------	----------------

Net increase	376,793
--------------	---------

**Net position held in trust for other postemployment benefits:**

Net position, July 1, 2015	<u>387,113</u>
Net position, June 30, 2016	<u>\$ 763,906</u>

---

See accompanying notes to financial statements.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT  
PUBLIC ENTITY INVESTMENT TRUST  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

---

**NOTE 1 – DESCRIPTION OF PLAN**

The following information of the Antelope Valley Community College District Public Entity Investment Trust (the "Trust"), a fiduciary fund of the Antelope Valley Community College District (the "District"), provides only general information of the Trust's provisions. Readers should refer to the Trust agreement for a more complete description. These financial statements include only the resources of the Trust and are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

General: The District administers the Trust, a contributory single-employer defined benefit healthcare plan through a third-party. The Trust provides postemployment medical, dental, vision and life insurance premiums to eligible retirees by paying member premiums. Benefit provisions are established and amended through contract negotiations with labor unions and must be approved by the District's Board of Trustees. Membership consists of 37 retirees currently eligible to receive benefits, and 37 eligible active plan members.

Contributions: Contributions to the Trust are funded entirely by the employer. The Trust was established and may be amended by the Retirement Board of Authority. During the year ended June 30, 2016, the District transferred \$387,113 into the trust from unrestricted District funds. Contributions are not required and any additional contributions by the District would be discretionary. Retiree benefits and administrative expenses are funded from the contribution and investment earnings.

Funded Status and Funding Progress: Actuarial valuations of an ongoing plan involve 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, investment returns, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Trust and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of trust assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

As of July 1, 2015, the most recent actuarial valuation date, the plan was partially funded. The actuarial accrued liability for benefits at the time of the actuarial valuation date was \$9,093,980 and the actuarial value of assets was \$387,846, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,706,134. As of the latest actuarial, the covered payroll (annual payroll of active employees covered by the Plan) was \$28,900,000, and the ratio of the UAAL to the covered payroll was 30 percent.

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 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 value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses), which is the expected long-term investment return on the employer's own assets calculated based on the funded level of the plan on the valuation date and an annual healthcare cost trend rate of 4 percent. Both rates include a 2.75 percent inflation assumption.

---

(Continued)

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT  
PUBLIC ENTITY INVESTMENT TRUST  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

---

**NOTE 1 – DESCRIPTION OF PLAN (Continued)**

Investment Options: As appointed by the Retirement Board of Authority, Benefit Trust Company, the Asset Custodian, maintains the Trust's investments in various mutual funds, and is the record keeper and Morgan Stanley Wealth Management is the investment advisor. Funds allocated to the Asset Custodian are invested as directed by the Retirement Board of Authority in a combination of equity and fixed income investments.

Plan Termination: In the event of Plan termination, the net position of the Trust would be allocated as prescribed in the Trust agreement Section 11.2., generally to pay in the order indicated below:

- District's remaining retiree medical benefit liabilities.
- Reasonable expenses of administering the Trust.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due, pursuant to formal commitments as well as statutory or contractual commitments. Retiree benefits are recognized when due and payable.

The financial statements of the Trust have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. In the U.S. the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting. The financial statements have been prepared consistent with GASB Codification P50, *Postemployment Benefit Plans Other than Pension Plans*.

Investment Valuation: Investments are reported at fair value based upon market prices, when available, or estimates of fair value, and unrealized and realized gains and losses are included in the Statement of Change in Trust Net Position.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Trust to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

---

(Continued)



ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT  
BENEFIT TRUST  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

---

**NOTE 3 – INVESTMENTS**

The Trust has adopted an internally developed investment policy that authorizes the use of a broad range of investment choices that have distinctly different risks and return characteristics. In general, investments held in the Trust are for the primary purpose of meeting present and future OPEB liability obligations and may be invested in accordance with California Government Code Sections 53600 through 53622 that, subject to applicable legal requirements, may provide greater latitude to increase purchasing power and capital growth potential if deemed prudent to do so. Generally the investment policy directs the Trust Custodian to invest the funds of the Trust in open-ended mutual funds consisting of fixed income and equity securities.

The fair value of the Trust's individual investments at June 30, 2016 are as follows:

Mutual funds – equity	\$ 415,784
Mutual funds – fixed income	294,503
Mutual funds – real estate	<u>53,529</u>
 Total investments	 <u>\$ 763,816</u>

During the fiscal year ended June 30, 2016, the Trust's investments (including gains and losses on investments bought and sold as well as held during the year) appreciated as follows:

Dividend and other	\$ 28,530
Realized losses, net	(16,741)
Unrealized losses, net	(14,472)
Investment fees	<u>(7,637)</u>
 Total investment loss	 <u>\$ (10,320)</u>

Custodial Credit Risk: The California Government Code requires California banks and savings and loan associations to secure the Trust's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the Trust. All cash held by financial institutions is entirely insured or collateralized.

Credit Risk: The Trust's investment policy requires all fixed income investments to be of investment grade quality or higher at purchase; that is, at the time of purchases, rated no lower than "BBB" by Standard and Poor's. The Retirement Board of Authority, at their discretion, may impose a higher standard on an individual investment manager basis as circumstances or investment objectives dictate. At June 30, 2016, the Trust investments consisted of open-end mutual funds, therefore there are no credit ratings to disclose.

Interest Rate Risk: The Trust 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. At June 30, 2016, the Trust had no significant interest rate risk related to investments held.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT  
BENEFIT TRUST  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

---

**NOTE 4 - FAIR VALUE MEASUREMENTS**

Fair Value of Financial Instruments: The following methods and assumptions were used by the Trust to estimate the fair value of its financial instruments at June 30, 2016.

Fair Value Hierarchy: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

*Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2:* Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3:* Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets Recorded at Fair Value: The following table presents information about the Trust's assets measured at fair value on a recurring basis as of June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds - equity	\$ 415,784	\$ 415,784	\$ -	\$ -
Mutual funds – fixed income	294,503	294,503	-	-
Mutual funds – real estate	<u>53,529</u>	<u>53,529</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 763,816</u>	<u>\$ 763,816</u>	<u>\$ -</u>	<u>\$ -</u>

Mutual funds were valued at closing prices from securities exchanges and are classified as Level 1 investments.

During the year ended June 30, 2016, there were no significant transfers in or out of Level 1.

There were no assets or liabilities measured at fair value on a non-recurring basis at June 30, 2016.

## **REQUIRED SUPPLEMENTARY INFORMATION**

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT  
BENEFIT TRUST  
REQUIRED SUPPLEMENTARY INFORMATION  
For the year ended June 30, 2016

**I. – SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
May 1, 2006	\$ -	\$ 7,974,678	\$ 7,974,678	0%	\$ 46,200,000	17.26%
March 1, 2009	\$ -	\$ 7,848,063	\$ 7,848,063	0%	\$ 46,200,000	16.99%
March 1, 2011	\$ -	\$ 7,600,837	\$ 7,600,837	0%	\$ 29,338,000	25.91%
July 1, 2013	\$ -	\$ 8,143,893	\$ 8,143,893	0%	\$ 25,432,000	32.02%
July 1, 2015	\$ 387,846	\$ 9,093,980	\$ 8,706,134	4%	\$ 28,900,000	30.13%

**II. – SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ended	Annual Required Contribution (ARC)	Contributions	Percentage of ARC Contributed
June 30, 2009	\$ 1,119,675	\$ 457,848	40.89%
June 30, 2010	\$ 1,013,533	\$ 604,150	59.61%
June 30, 2011	\$ 1,013,533	\$ 522,456	51.55%
June 30, 2012	\$ 2,150,896	\$ 453,565	21.09%
June 30, 2013	\$ 686,280	\$ 405,793	59.13%
June 30, 2014	\$ 686,280	\$ 613,700	89.42%
June 30, 2015	\$ 889,069	\$ 948,704	106.71%
June 30, 2016	\$ 1,190,259	\$ 947,879	79.64%

**III. – NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. 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 liabilities (or funding excess) over a period not to exceed thirty years.

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

To the Board of Trustees  
Antelope Valley Community College District  
Lancaster, 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 accompanying financial statements of Antelope Valley Community College District Benefit Trust (the "Trust"), a fiduciary fund of Antelope Valley Community College District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 21, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over the Trust's financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting for the Trust.

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

## Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Crowe Horwath LLP", is positioned above the printed name of the firm.

Crowe Horwath LLP

Sacramento, California  
December 21, 2016