

PALOMAR COMMUNITY COLLEGE DISTRICT

SAN DIEGO COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2001**

PALOMAR COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2001

CONTENTS

	<u>Page</u>
PRESIDENT'S MESSAGE	1
INTRODUCTION	2
INDEPENDENT AUDITORS' REPORT	3-4
GENERAL PURPOSE FINANCIAL STATEMENTS:	
All Fund Types and Account Groups - Combined Balance Sheet	5
All Governmental Fund Types and Expendable Trust Funds - Combined Statement of Revenues, Expenditures and Changes in Fund Balance	6
All Governmental Fund Types - Combined Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual	7-10
All Proprietary Fund Types - Combined Statement of Revenues, Expenses and Changes in Retained Earnings – Enterprise Funds.....	11
All Proprietary Fund Types - Combined Statement of Cash Flows – Enterprise Funds	12
All Proprietary Fund Types – Statement of Revenues, Expenses and Changes in Retained Earnings – Internal Service Fund - Retiree Benefits Fund.....	13
All Proprietary Fund Types – Statement of Cash Flows – Internal Service Fund - Retiree Benefits Fund	14
NOTES TO FINANCIAL STATEMENTS	15-38
INDIVIDUAL FUND FINANCIAL STATEMENTS:	
Special Revenue Funds:	
Combining Balance Sheet	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	40
Capital Projects Funds:	
Combining Balance Sheet	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	42-43

PALOMAR COMMUNITY COLLEGE DISTRICT

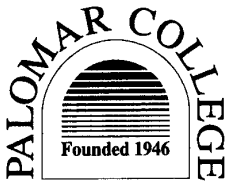
AUDIT REPORT

June 30, 2001

CONTENTS

(Continued)

	<u>Page</u>
INDIVIDUAL FUND FINANCIAL STATEMENTS: (continued)	
Proprietary Fund Types:	
Combining Balance Sheet – Enterprise Funds	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	45
Combining Statement of Cash Flows – Enterprise Funds.....	46
Fiduciary Fund Types:	
Combining Balance Sheet - Fiduciary Fund Types.....	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	48
SUPPLEMENTARY INFORMATION:	
Independent Auditors' Report on Supplementary Information	49
History and Organization	50
Schedule of Expenditures of Federal Awards	51
Schedule of State Financial Assistance - Grants.....	52
Schedule of Workload Measure for Program-Based Funding and Annual Apprenticeship Hours.....	53
Reconciliation of Annual Financial and Budget Report (CCFS-311) With Audited Financial Statements.....	54
Schedule of Financial Trends and Analysis	55
Notes to Supplementary Information	56
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	57-58
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	59-60
Report on State Compliance.....	61-63
Schedule of Findings and Questioned Costs – Summary of Auditor Results	64
Schedule of Findings and Questioned Costs Related to General Purpose Financial Statements.....	65-67
Schedule of Findings and Questioned Costs Related to Federal Awards	68
Status of Prior Year Findings and Questioned Costs	69-70



Sherrill L. Amador, Ed D
Superintendent/President

Governing Board

Robert L. Dougherty, Jr., M D
Silverio H. Haro, Ed M
Ralph G. Jensen, B A
Darrell L. McMullen, M B A
Michele T. Nelson, Ph D
Student Trustee
ASB President

Office of
the President

September 10, 2001

2000-2001 FINANCIAL STATEMENTS

The annual financial audit prepared by the Palomar College external contract auditors complies with the California Community College Chancellor's Office Budget and Accounting Manual, the California Code of Regulations, Section 58300, and California Education Code, Section 84040.

The financial audit document primarily determines the College's accountability for revenues, the propriety of expenditures, the extent to which funds have been expended in accordance with prescribed state and federal laws and regulations, and whether the College's financial statements are presented fairly in accordance with generally accepted accounting principles.

From the audit documents and the annual Adopted Budget, the financial condition and solvency of the College is examined and confirmed. For Fiscal Year 2000-2001, Palomar College is once again in sound financial condition and has exceeded the minimum three percent General Fund Reserves required by the Chancellor's Office.

Sincerely,

Sherrill L. Amador, Ed.D.
Superintendent/President

SLA:bab

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INTRODUCTION

OBJECTIVES OF THE AUDIT

The primary audit objective was to determine the fairness of presentation of Palomar Community College District's financial statements. In connection with that objective, and to the extent that they materially impact the financial statements of the District, these were additional audit objectives:

- To assess the adequacy of the systems and procedures for financial accounting, compliance with rules and regulations, and internal controls at Palomar Community College District.
- To determine the accountability for revenues, the propriety of expenditures, and the extent to which funds have been expended in accordance with prescribed state and federal laws and regulations.
- To determine whether financial and financially related reports to state and federal agencies are presented fairly.
- To recommend appropriate actions to correct any deficiencies found.

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENÉE S. GRAVES
CARL PON
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. MCCUTCHEON
KARIN HECKMAN NELSON
ARVEE ROBINSON

We have audited the accompanying combined general purpose financial statements of the Palomar Community College District, as of and for the year ended June 30, 2001 as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District has not maintained a complete record of the historical costs of its general fixed assets for the governmental fund types. Therefore, as is common with many California community college districts, a statement of general fixed assets, required by generally accepted accounting principles, is not included in the financial statements. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the omission of general fixed assets as explained above, the combined general purpose financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Palomar Community College District as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Palomar Community College District

In accordance with Government Auditing Standards, we have also issued a report dated September 28, 2001 on our consideration of the Palomar Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the combined general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Palomar Community College District. Such information has been subjected to the auditing procedures applied in the examination of the combined general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined general purpose financial statements taken as a whole.

The column on the accompanying combined financial statements captioned "Totals-Memorandum Only" represents an aggregation of the individual combining financial statements. The totals column is presented for overview informational purposes and does not represent consolidated financial information.

VICENTI, LLOYD & STUTZMAN LLP

September 28, 2001

PALOMAR COMMUNITY COLLEGE DISTRICT
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 June 30, 2001

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		Account Group		Totals (Memorandum Only)	
	General Fund	Debt Service Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	Internal Service Fund	Trust and Agency Funds	General Long-Term Debt	Current Year	Prior Year		
ASSETS												
Cash in County Treasury	\$ 15,062,857	\$ -	\$ 1,073,154	\$ 6,636,086	\$ -	\$ 5,874,306	\$ 1,276,288	\$ -	\$ 29,922,691	\$ 21,770,536		
Cash on Hand and in Banks			500,375		289,496		364,913		1,154,784	2,459,689		
Cash in Revolving Fund	25,000								25,000	25,000		
Cash Collections Awaiting Deposit	29,036			365,265			108		394,409	120,345		
Investments with Fiscal Agent		622,845		5,384					628,229	557,276		
Accounts Receivable:												
Federal and State Governments	2,161,293			451,072					2,612,365	6,234,871		
Miscellaneous	456,171		14,565	24,719	176,634		283,467		955,556	2,336,804		
Due from Other Funds	1,617,406		85,222	829	68,136		68,210		1,839,803	2,564,496		
Stores Inventory					38,617				38,617	32,784		
Prepaid Expenditures	306,764								306,764	42,989		
Fixed Assets (net of depreciation)					682,886				682,886	755,163		
Amount Available in Other Funds								622,845	622,845	6,068,542		
Amount to be Provided for:												
Certificates of Participation												
Accrued Vacation								6,307,155	6,307,155	6,612,722		
Post Employment Benefits								576,488	576,488	387,506		
Capital Leases								27,263,940	27,263,940	21,752,676		
TOTAL ASSETS	\$ 19,658,527	\$ 622,845	\$ 1,673,316	\$ 7,483,355	\$ 1,255,769	\$ 5,874,306	\$ 1,992,986	\$ 36,864,465	\$ 75,425,569	\$ 73,829,185		
LIABILITIES AND FUND EQUITY												
Liabilities												
Accounts Payable	\$ 2,736,579	\$ -	\$ 81,973	\$ 89,328	\$ 25,269	\$ -	\$ 195,169	\$ -	\$ 3,128,318	\$ 3,443,273		
Due to Other Funds	117,355		542,797	85,222	899,040		195,389		1,839,803	2,564,496		
Amounts Held in Trust							85,406		85,406	67,597		
Deferred Revenue	4,563,755		9,008	2,207			26,941		4,601,911	2,512,728		
Certificates of Participation								6,930,000	6,930,000	7,170,000		
Accrued Vacation	1,522,784							576,488	2,099,272	1,173,001		
Post Employment Benefits								27,263,940	27,263,940	27,263,940		
Capital Leases								2,094,037	2,094,037	2,107,786		
TOTAL LIABILITIES	8,940,473	-	633,778	176,757	924,309	-	502,905	36,864,465	48,042,687	46,302,821		
Fund Equity												
Reserved for Special Purposes	355,890								355,890	67,943		
Restricted for Special Purposes	817,995		545,481	1,758,781			1,462,680		4,584,937	8,631,648		
Restricted for Debt Service		622,845							622,845	552,170		
Designated for Special Purposes	9,544,169		494,057	5,547,817			27,401		15,613,444	11,347,890		
Undesignated									-	420,069		
Retained Earnings					331,460	5,874,306			6,205,766	6,506,644		
TOTAL FUND EQUITY	10,718,054	622,845	1,039,538	7,306,598	331,460	5,874,306	1,490,081	-	27,382,882	27,526,364		
TOTAL LIABILITIES AND FUND EQUITY	\$ 19,658,527	\$ 622,845	\$ 1,673,316	\$ 7,483,355	\$ 1,255,769	\$ 5,874,306	\$ 1,992,986	\$ 36,864,465	\$ 75,425,569	\$ 73,829,185		

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types				Fiduciary Fund Types		Totals (Memorandum Only)	
	General Fund	Debt Service Fund	Special Revenue Funds	Capital Projects Funds	Trust and Agency Funds		Current Year	Prior Year
REVENUES								
Revenue from Federal Sources	\$ 1,700,489	\$ -	\$ 52,632	\$ -	\$ 3,796,008	\$ -	\$ 5,549,129	\$ 3,692,006
Revenue from State Sources	35,411,782		327,867	466,337	226,482	36,432,468	42,622,082	42,622,082
Revenue from Local Sources	44,936,631	122,017	611,369	1,213,431	299,796	47,183,244	47,183,244	43,389,958
TOTAL REVENUES	<u>82,048,902</u>	<u>122,017</u>	<u>991,868</u>	<u>1,679,768</u>	<u>4,322,286</u>	<u>89,164,841</u>	<u>89,164,841</u>	<u>89,704,046</u>
EXPENDITURES								
Academic Salaries	32,578,581		306,704			32,885,285	32,885,285	30,679,265
Classified Salaries	20,062,304		171,432		3,458	20,237,194	20,237,194	18,285,160
Employee Benefits	10,769,316		93,202			10,862,518	10,862,518	9,751,332
Supplies and Materials	2,026,963		93,719	46,470	28,364	2,195,516	2,195,516	1,772,805
Other Operating Expenses & Services	11,315,538		176,178	766,731	116,331	12,374,778	12,374,778	10,790,061
Capital Outlay	5,238,834		60,456	656,681	12,281	5,968,252	5,968,252	13,207,597
Debt Service		545,955				545,955	545,955	625,580
Other Transfers Out	445,660					445,660	445,660	621,488
TOTAL EXPENDITURES	<u>82,437,196</u>	<u>545,955</u>	<u>901,691</u>	<u>1,469,882</u>	<u>160,434</u>	<u>85,515,158</u>	<u>85,515,158</u>	<u>85,733,288</u>
Excess (deficiency) of revenues over expenditures	<u>(388,294)</u>	<u>(423,938)</u>	<u>90,177</u>	<u>209,886</u>	<u>4,161,852</u>	<u>3,649,683</u>	<u>3,649,683</u>	<u>3,970,758</u>
OTHER FINANCING SOURCES (USES)								
Interfund Transfers In	1,272,550	494,613	43,264	1,143,492	63,564	3,017,483	3,017,483	1,843,860
Proceeds from Capital Leases	807,315					807,315	807,315	531,830
Debt Service	(911,837)		(30,000)	(1,240,000)	(2,550)	(911,837)	(911,837)	(885,584)
Interfund Transfers Out	(1,744,933)				(3,971,791)	(3,017,483)	(3,017,483)	(1,808,860)
Student Financial Aid		494,613	13,264	(96,508)	(3,910,777)	(3,971,791)	(3,971,791)	(3,513,910)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(576,905)</u>	<u>494,613</u>	<u>13,264</u>	<u>(96,508)</u>	<u>(3,910,777)</u>	<u>(4,076,313)</u>	<u>(4,076,313)</u>	<u>(3,832,664)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(965,199)</u>	<u>70,675</u>	<u>103,441</u>	<u>113,378</u>	<u>251,075</u>	<u>(426,630)</u>	<u>(426,630)</u>	<u>138,094</u>
Fund Balances at Beginning of Year, as previously reported	11,099,227	552,170	936,097	7,193,220	1,239,006	21,019,720	21,019,720	20,881,626
Adjustment for Restatement (See Note 13)	584,026					584,026	584,026	-
Fund Balances at End of Year, as adjusted	<u>\$ 10,718,054</u>	<u>\$ 622,845</u>	<u>\$ 1,039,538</u>	<u>\$ 7,306,598</u>	<u>\$ 1,490,081</u>	<u>\$ 21,177,116</u>	<u>\$ 21,177,116</u>	<u>\$ 21,019,720</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
For the Fiscal Year Ended June 30, 2001

	General Fund			Debt Service Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Revenue from Federal Sources									
Higher Education Act	\$ 198,357	\$ 124,387	\$ (73,970)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Federal	2,257,216	1,576,102	(681,114)	-	-	-	42,000	52,632	10,632
Total Revenue from Federal Sources	<u>2,455,573</u>	<u>1,700,489</u>	<u>(755,084)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,000</u>	<u>52,632</u>	<u>10,632</u>
Revenue from State Sources									
General Apportionments	19,232,928	18,857,079	(375,849)	-	-	-	-	-	-
Categorical Apportionments	9,103,469	8,717,642	(385,827)	-	-	-	-	-	-
Categorical Program Allowances	8,015,713	5,165,611	(2,850,102)	-	-	-	-	-	-
Tax Relief Subventions	442,000	461,761	19,761	-	-	-	-	-	-
Lottery	2,221,379	2,108,509	(112,870)	-	-	-	-	-	-
Other State Revenues	18,000	101,180	83,180	-	-	-	401,498	327,867	(73,631)
Total Revenue from Other State Sources	<u>39,033,489</u>	<u>35,411,782</u>	<u>(3,621,707)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>401,498</u>	<u>327,867</u>	<u>(73,631)</u>
Revenue from Local Sources									
Property Taxes	29,312,772	29,821,293	508,521	-	-	-	-	-	-
Rentals and Leases	4,978	14,414	9,436	-	-	-	-	-	-
Interest and Investment Income	864,283	919,401	55,118	51,342	122,017	70,675	12,500	68,634	56,134
Student Fees and Charges	10,555,632	11,091,137	535,505	-	-	-	186,745	196,145	9,400
Other Local Revenue	4,884,205	3,090,386	(1,793,819)	-	-	-	352,164	346,590	(5,574)
Total Revenue from Local Sources	<u>45,621,870</u>	<u>44,936,631</u>	<u>(685,239)</u>	<u>51,342</u>	<u>122,017</u>	<u>70,675</u>	<u>551,409</u>	<u>611,369</u>	<u>59,960</u>
TOTAL REVENUES	<u>87,110,932</u>	<u>82,048,902</u>	<u>(5,062,030)</u>	<u>51,342</u>	<u>122,017</u>	<u>70,675</u>	<u>994,907</u>	<u>991,868</u>	<u>(3,039)</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUND TYPES

For the Fiscal Year Ended June 30, 2001

	Capital Projects Funds			Total (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Revenue from Federal Sources						
Higher Education Act	\$ -	\$ -	\$ -	\$ 198,357	\$ 124,387	\$ (73,970)
Other Federal Revenue				2,299,216	1,628,734	(670,482)
Total Revenue from Federal Sources				2,497,573	1,753,121	(744,452)
Revenue from State Sources						
General Apportionments				19,232,928	18,857,079	(375,849)
Categorical Apportionments				9,103,469	8,717,642	(385,827)
Categorical Program Allowances				8,015,713	5,165,611	(2,850,102)
Tax Relief Subventions				442,000	461,761	19,761
Lottery				2,221,379	2,108,509	(112,870)
Other State Revenues	1,168,199	466,337	(701,862)	1,587,697	895,384	(692,313)
Total Revenue from Other State Sources	1,168,199	466,337	(701,862)	40,603,186	36,205,986	(4,397,200)
Revenue from Local Sources						
Property Taxes				29,312,772	29,821,293	508,521
Rentals and Leases				4,978	14,414	9,436
Interest and Investment Income				1,133,125	1,385,145	252,020
Student Fees and Charges				10,742,377	11,287,282	544,905
Other Local Revenue	2,639,956	938,338	(1,701,618)	7,876,325	4,375,314	(3,501,011)
Total Revenue from Local Sources	2,844,956	1,213,431	(1,631,525)	49,069,577	46,883,448	(2,186,129)
TOTAL REVENUES	4,013,155	1,679,768	(2,333,387)	92,170,336	84,842,555	(7,327,781)

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUND TYPES
For the Fiscal Year Ended June 30, 2001

	General Fund			Debt Service Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES									
Academic Salaries	\$ 33,650,721	\$ 32,578,581	\$ 1,072,140	\$ -	\$ -	\$ -	\$ 336,805	\$ 306,704	\$ 30,101
Classified Salaries	21,962,193	20,062,304	1,899,889				186,997	171,432	15,565
Employee Benefits	11,513,071	10,769,316	743,755				124,138	93,202	30,936
Supplies and Materials	2,728,818	2,026,963	701,855				95,569	93,719	1,850
Other Operating Expenses & Services	15,560,608	11,315,538	4,245,070				173,325	176,178	(2,853)
Capital Outlay	6,962,054	5,238,834	1,723,220				94,868	60,456	34,412
Debt Service	-	445,660	(445,660)	545,955	545,955	-			
Other Transfers Out	92,377,465	82,437,196	9,940,269	545,955	545,955	-	1,011,702	901,691	110,011
TOTAL EXPENDITURES	(5,266,533)	(388,294)	4,878,239	(494,613)	(423,938)	70,675	(16,795)	90,177	106,972
Excess (deficiency) of revenues over expenditures									
OTHER FINANCING SOURCES (USES)									
Interfund Transfers In	1,296,557	1,272,550	(24,007)	622,230	494,613	(127,617)	43,264	43,264	-
Proceeds from Capital Leases	807,315	807,315	-						
Debt Service	(911,837)	(911,837)	-				(30,000)	(30,000)	-
Interfund Transfers Out	(4,239,672)	(1,744,933)	2,494,739						
TOTAL OTHER FINANCING SOURCES (USES)	(3,047,637)	(576,905)	2,470,732	622,230	494,613	(127,617)	13,264	13,264	-
Excess (deficiency) of revenues over expenditures and other sources (uses)	\$ (8,314,170)	(965,199)	\$ 7,348,971	\$ 127,617	70,675	\$ (56,942)	\$ (3,531)	103,441	\$ 106,972
Fund Balances at Beginning of Year, as previously reported		11,099,227			552,170			936,097	
Adjustment for Restatement (See Note 13)		584,026							
Fund Balances at End of Year, as adjusted		\$ 10,718,054			\$ 622,845			\$ 1,039,538	

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUND TYPES

For the Fiscal Year Ended June 30, 2001

	Capital Projects Funds			Total (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES						
Academic Salaries	\$ -	\$ -	\$ -	33,987,526	32,885,285	\$ 1,102,241
Classified Salaries	4,593	-	4,593	22,153,783	20,233,736	1,920,047
Employee Benefits	407	-	407	11,637,616	10,862,518	775,098
Supplies and Materials	47,190	46,470	720	2,871,577	2,167,152	704,425
Other Operating Expenses & Services	3,338,050	766,731	2,571,319	19,071,983	12,258,447	6,813,536
Capital Outlay	2,633,716	656,681	1,977,035	9,690,638	5,955,971	3,734,667
Debt Service	-	-	-	545,955	545,955	-
Other Transfers Out	-	-	-	-	443,000	(443,000)
TOTAL EXPENDITURES	<u>6,023,956</u>	<u>1,469,882</u>	<u>4,554,074</u>	<u>99,959,078</u>	<u>85,354,724</u>	<u>14,604,354</u>
Excess (deficiency) of revenues over expenditures	<u>(2,010,801)</u>	<u>209,886</u>	<u>2,220,687</u>	<u>(7,788,742)</u>	<u>(512,169)</u>	<u>7,276,573</u>
OTHER FINANCING SOURCES (USES)						
Interfund Transfers In	1,124,738	1,143,492	18,754	3,086,789	2,953,919	(132,870)
Proceeds from Capital Leases	-	-	-	807,315	807,315	-
Debt Service	-	-	-	(911,837)	(911,837)	-
Interfund Transfers Out	(1,240,000)	(1,240,000)	-	(5,509,672)	(3,014,933)	2,494,739
TOTAL OTHER FINANCING SOURCES (USES)	<u>(115,262)</u>	<u>(96,508)</u>	<u>18,754</u>	<u>(2,527,405)</u>	<u>(165,536)</u>	<u>2,361,869</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>\$ (2,126,063)</u>	<u>113,378</u>	<u>\$ 2,239,441</u>	<u>\$ (10,316,147)</u>	<u>(677,705)</u>	<u>\$ 9,638,442</u>
Fund Balances at Beginning of Year, as previously reported		7,193,220			19,780,714	
Adjustment for Restatement (See Note 13)					584,026	
Fund Balances at End of Year, as adjusted		<u>\$ 7,306,598</u>			<u>\$ 19,687,035</u>	

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS - PROPRIETARY FUND TYPES
ENTERPRISE FUNDS
For the Fiscal Year Ended June 30, 2001

OPERATING REVENUES	
Sales	\$ 1,269,973
Revenue from Local Sources	<u>52,857</u>
Total Operating Revenues	<u>1,322,830</u>
 OPERATING EXPENSES	
Classified Salaries	473,273
Employee Benefits	62,989
Supplies	731,119
Services and other operating expenses	129,286
Capital Outlay	<u>12,106</u>
Total Operating Expenses	<u>1,408,773</u>
Operating Loss	(85,943)
 NON-OPERATING REVENUES	
Interest Income	<u>6,049</u>
Net Loss	<u>(79,894)</u>
RETAINED EARNINGS - Beginning of year, as previously reported	995,380
Adjustment for Restatement (See Note 13)	<u>(584,026)</u>
RETAINED EARNINGS - End of year, as adjusted	<u><u>\$ 331,460</u></u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES - ENTERPRISE FUNDS
For the Fiscal Year Ended June 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from sales	\$ 1,357,629
Cash received from local sources	52,857
Cash paid to vendors and employees	<u>(1,576,672)</u>
Net cash used by operating activities	<u>(166,186)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>6,049</u>
Net cash provided by investing activities	<u>6,049</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Purchase of fixed assets	(1,964)
Other transfers out	<u>(575,250)</u>
Net cash used by financing activities	<u>(577,214)</u>

Net Decrease in Cash	(737,351)
Cash - July 1, 2000	<u>1,026,847</u>
Cash - June 30, 2001	<u>\$ 289,496</u>

**Reconciliation of Operating Loss
to Net Cash Used by Operating Activities**

Operating Loss	\$ (85,943)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation expense	74,241
Decrease in accounts receivable	85,875
Decrease in due from other funds	1,781
(Increase) in inventory	(5,833)
Decrease in prepaid expenses	46
(Decrease) in accounts payable	(4,628)
(Decrease) in due to other funds	<u>(231,725)</u>
Net Decrease in Cash from Operating Activities	<u>\$ (166,186)</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS - INTERNAL SERVICE FUND
RETIREE BENEFITS FUND
For the Fiscal Year Ended June 30, 2001

NON-OPERATING REVENUE

Interest Income	\$ <u>363,042</u>
Net Income	363,042
RETAINED EARNINGS - Beginning of year	<u>5,511,264</u>
RETAINED EARNINGS - End of year	<u><u>\$ 5,874,306</u></u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE - INTERNAL SERVICE FUND
RETIREE BENEFITS FUND
For the Fiscal Year Ended June 30, 2001

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	\$ 363,042
	<hr/>
Net Cash Provided by Investing Activities:	363,042
Cash - July 1, 2000	<hr/>
	5,511,264
Cash - June 30, 2001	<hr/> <hr/>
	\$ 5,874,306

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. FUND ACCOUNTING:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants. The accompanying statements include all funds and account groups of the District.

The budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's Budget and Accounting Manual.

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

B. FUND STRUCTURE:

The statements of revenue, expenditures and changes in fund balance are statements of financial activities of the particular fund related to the current reporting period. Expenditures of the various funds frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

The accompanying financial statements are structured into four broad categories which in aggregate include three fund types and one account group as follows:

GOVERNMENTAL FUNDS:

General Fund - the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - used to account for the payment of principal and interest on Certificates of Participation.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND STRUCTURE: (continued)

GOVERNMENTAL FUNDS: (continued)

Special Revenue Funds - used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains two special revenue funds:

1. Child Development Fund - used to account for resources committed to child development programs maintained by the District.
2. Escondido Tenancy Fund - used to account for the lease income from retail establishments and the related expenditures.

Capital Projects Funds - used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains three Capital Projects Funds:

1. Capital Outlay Fund - used to account for the accumulation of funds for the acquisition or construction of capital outlay items and scheduled maintenance projects.
2. COP Capital Projects Fund - used to account for Certificate of Participation activity related to capital outlay items.
3. Energy Conservation Fund – used to account for major energy savings projects.

PROPRIETARY FUNDS:

Enterprise Funds – the District maintains two enterprise funds:

1. Cafeteria Fund - used to account for revenues received and expenditures made to operate the District's food service operation.
2. Bookstore Fund - used to provide instructional materials to the student body. The Bookstore operations were contracted out to a private company in November, 1999. Activity after that date is related to the winding down of operations.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND STRUCTURE: (continued)

Internal Service Fund – the District maintains one internal service fund.

1. Retiree Benefits Fund - used to account for the accumulation of funds to pay post-employment health care benefits.

FIDUCIARY FUNDS:

1. **Student Financial Aid Fund** - used to account for funds designated for deposit and direct payment of government funded student financial aid.
2. **Associated Student Government Fund** – used to account for raising and expending money to promote the general welfare, morale and educational experiences of the student body.
3. **Scholarship and Loan Trust Fund** – used to account for assets held by the District as an agent for donors who establish scholarships for students.
4. **Student Representation Fund** – used to account for monies collected from the student body and related expenditures to provide for the support of the study body representatives for related governmental affairs.
5. **Student Center Fee Fund** – used to account for monies collected for the remodel/construction of a student center.

ACCOUNT GROUPS:

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources".

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND STRUCTURE: (continued)

ACCOUNT GROUPS: (continued)

Thus, the fixed assets and long-term liabilities associated with Governmental and Expendable Trust Funds are accounted for in the Account Groups of the District.

General Fixed Assets Account Group – Like many other California Community College Districts, no accounts for fixed assets are maintained for the governmental fund types.

General Long-Term Debt Account Group - accounts for long-term liabilities expected to be financed from governmental funds.

C. BASIS OF ACCOUNTING:

All governmental funds and fiduciary funds are maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period with the exceptions noted below. The Proprietary Funds are maintained on the accrual basis of accounting.

1. Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments, on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenue are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Finance. This is generally on a cash basis.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

2. Certain current year apportionments from the state are based upon various financial and statistical information of the previous year.

Any prior year corrections due to the recalculation in February of 2002 will be recorded in the year computed by the State. Based upon the most current information available, it is estimated that \$315,250 will be received in February of 2002 which has been reflected in current year income.

3. Certain revenues are accounted for on an accrual basis and receivables are accrued at year-end for amounts earned but not yet received.

The estimated third and fourth quarter payments of state lottery revenues were accrued at the end of the fiscal year. The adjusting payment of lottery revenues from prior year to current FTES is reflected as income in the year in which the adjusting payment is received.

4. In accordance with GASB Statement No. 31, investments have been recorded at fair value. However, cash in the County treasury is recorded at cost, which approximates fair value.
5. Instructional, custodial, health and other supplies of the governmental funds are recorded as expenses in the year of purchase.
6. In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as liabilities of the District. A portion of the liability is recognized in the applicable fund at year-end. The remainder of the liability is recognized in the General Long-Term Debt Account Group.

The District has accrued a liability for the amounts attributable to load banking hours within accounts payable. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave.

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

7. The District reports long-term debt of governmental funds at face value in the general long-term debt account group.
8. Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.
9. GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement System on behalf of all Community College and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$1,113,700.
10. Cash for the Proprietary Fund Types are Cash with the County Treasury and Cash on Hand and in Banks.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

11. In accordance with GASB Statement No. 20, the District's Proprietary Funds follow all GASB statements issued prior to November 30, 1989 until subsequently amended, superceded or rescinded. The District also applies all FASB statements issued after November 30, 1989 that are developed for business enterprises, unless those statements conflict with or contradict a GASB statement.

D. BUDGET:

The statements of revenue, expenditures and changes in fund balances - budget and actual include a column entitled "Budget". The amounts in this column represent the budget adopted by the Board and all amendments throughout the year. The adopted budget included an appropriation for contingencies. This is an amount provided in the budget document for uncertain or undetermined expenditures.

E. RESERVED/RESTRICTED/DESIGNATED FUND BALANCE:

Reservations of the ending fund balance indicate the portions of fund balance not available for expenditure or amounts legally restricted for a specific future use. The reserved fund balance in the General Fund at June 30, 2001 consists of the following:

Revolving fund	\$ 25,000
Student loans receivable	24,126
Prepaid expenditures	<u>306,764</u>
Total	<u>\$355,890</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

E. RESERVED/RESTRICTED/DESIGNATED FUND BALANCE: (continued)

The restricted fund balance consists of the following:

	<u>Amounts Restricted By Law</u>	<u>Student Financial Aid</u>	<u>Total</u>
General Fund	\$ 817,995	\$	\$ 817,995
Child Development Fund	545,481		545,481
Capital Outlay Fund	1,758,781		1,758,781
Student Financial Aid Fund		133,958	133,958
Scholarship and Loan Trust Fund	839,157		839,157
Student Representation Fund	141,076		141,076
Student Center Fee Fund	<u>348,489</u>		<u>348,489</u>
Totals	<u>\$4,450,979</u>	<u>\$133,958</u>	<u>\$4,584,937</u>

The designated fund balance consists of the following:

	<u>Amounts committed by contract and other legal obligations</u>	<u>Amounts Designated by board action for specific future purposes</u>	<u>Amounts for District's Self-Insurance Program</u>	<u>Total</u>
General Fund	\$ 1,838,188	\$ 7,605,981	\$100,000	\$ 9,544,169
Escondido Tenancy Fund		494,057		494,057
Capital Outlay Fund		5,473,650		5,473,650
COP Capital Projects Fund		5,384		5,384
Energy Conservation Fund		68,783		68,783
Associated Student Government Fund		<u>27,401</u>		<u>27,401</u>
Totals	<u>\$ 1,838,188</u>	<u>\$13,675,256</u>	<u>\$100,000</u>	<u>\$15,613,444</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

F. REPORTING ENTITY:

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement No. 14. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board of Trustee's ability to exercise oversight responsibility. A second criterion used in evaluating potential component units is the scope of public service. A third criterion used to evaluate potential component units is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of the criteria listed above, the following potential component unit has been excluded from the District's reporting entity:

1. Palomar College Foundation - The Foundation is a separate not-for-profit corporation. The Board of Directors are elected independent of any District Board of Director's appointments. The Board is responsible for approving its own budget and accounting and finance related activities.

Separate financial statements for the Foundation may be obtained through the District.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

Excesses of expenditures over appropriations in individual funds, by major object accounts, are as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
Debt Service Fund:	
Debt Service	\$127,617
Special Revenue Funds:	
Child Development Fund:	
Other Operating Expenses and Services	569
Escondido Tenancy Fund:	
Other Operating Expenses and Services	2,284
Capital Projects Funds:	

The COP Capital Projects Fund activity is not reported on the District's system, therefore a CCFS-311 is not prepared and a budget is not presented.

NOTE 3 - DEPOSITS AND INVESTMENTS:

A. Deposits:

Cash at June 30, 2001, consisted of the following:

Deposits:

Cash on Hand and in Banks	\$ 1,154,784
Cash in Revolving Fund	25,000
Cash Collections Awaiting Deposit	394,409

Pooled Funds:

Cash in County Treasury	29,922,691
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PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

A. Deposits: (continued)

Cash balances held in banks and in revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is partially insured or collateralized.

In accordance with the Budget and Accounting Manual, the District maintains substantially all of its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Deposits at June 30, 2001, held on behalf of the Palomar Community College District, are presented below, categorized separately to give an indication of the level of risk associated with each deposit:

	<u>Category*</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash on Hand and in Banks	\$ 49,385	\$1,049,123	\$	\$1,098,508	\$1,154,784
Cash in Revolving Fund	21,579			21,579	25,000
Cash Collections Awaiting Deposit	<u>29,036</u>	<u>33,338</u>	<u>—</u>	<u>62,374</u>	<u>394,409</u>
Total	<u>\$100,000</u>	<u>\$1,082,461</u>	<u>\$ 0</u>	<u>\$1,182,461</u>	<u>\$1,574,193</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments:

Government Code Section 16430 allows governmental entities to invest surplus moneys in certain eligible securities as listed in the code.

The District did not violate any provisions of the Government Code during the 2000-01 fiscal year, nor were they involved in any reverse repurchase agreements during 2000-01.

Investments at June 30, 2001, held on behalf of the Palomar Community College District, are presented below, categorized separately to give an indication of the level of custodial credit risk associated with each investment:

	Category *			Carrying Amount	Fair Value
	1	2	3		
Federated U.S. Treasury	\$	\$	\$ 94,094	\$ 94,094	\$ 94,094
Investment Agreement	—	—	<u>534,135</u>	<u>534,135</u>	<u>534,135</u>
Total Investments	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$628,229</u>	<u>\$628,229</u>	<u>\$628,229</u>

* Category 1 includes amounts that are insured or collateralized. Category 2 includes amounts that are insured or collateralized by the pledging financial institution's trust department or agent in the District's name. Category 3 includes amounts that are fully insured or collateralized but not in the District's name.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 4 - INTERFUND TRANSACTIONS:

A. Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2001 are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$1,617,406	\$ 117,355
Child Development Fund	85,222	535,207
Escondido Tenancy Fund		7,590
Capital Outlay Fund	829	85,222
Cafeteria Fund	5,603	315,014
Bookstore Fund	62,533	584,026
Student Financial Aid Fund	9,817	168,058
Scholarship and Loan Trust Fund	9,630	27,331
Student Representation Fund	14,601	
Student Center Fee Fund	<u>34,162</u>	<u> </u>
Totals	<u>\$1,839,803</u>	<u>\$1,839,803</u>

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for 2000-01 fiscal year are as follows:

Transfer from the General Fund to the Debt Service Fund for debt service payments on Certificates of Participation	\$ 494,613
Transfer from the General Fund to the Child Development Fund for the required District match	43,264
Transfer from the Escondido Tenancy Fund to the General Fund for grounds improvement projects	30,000

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 4 - INTERFUND TRANSACTIONS: (continued)

B. Interfund Transfers (continued)

Transfer from the General Fund to the Capital Outlay Fund for the following:

for the District match portion for scheduled maintenance projects	255,318
for the purchase of a planetarium projector	82,715
for remodel of the Escondido Child Center	560,772
for the ADA barrier removal project	244,687

Transfer from the Capital Outlay Fund to the General Fund for the purpose of maintaining, upgrading, and training District personnel in the software and hardware computer and telecommunications networking technologies	1,240,000
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Transfer from the General Fund to the Student Financial Aid Fund for student financial aid	16,315
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Transfer from the General Fund to the Associated Student Government Fund for the Associated Students' share of the Palomar Identification Card (PIC) fee	47,249
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Transfer from the Associated Student Government Fund to the General Fund for reimbursement of salaries paid on behalf of the Associated Student Government Fund	<u>2,550</u>
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Total	<u>\$3,017,483</u>
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PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 5 - TAX REVENUE ANTICIPATION NOTES (TRANS):

The District issued \$1,195,000 of Tax Revenue Anticipation Notes dated July 5, 2000 through the California Community College Financing Authority. The notes matured on June 29, 2001 and yielded 4.24% interest. The notes were sold by the District to supplement its cash flow.

The funds were held in a Guaranteed Investment Contract. Repayment requirements were that \$626,877 be deposited in both January and April, 2001 respectively to cover principal and interest payments. All repayment requirements were met.

All deposits were made with the County Treasurer on a timely basis prior to June 30, 2001. Therefore, a liability is not reported on these financial statements.

NOTE 6 - LEASES:

A. Capital Leases:

The District leases equipment valued at approximately \$4,604,020 under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2001-02	\$ 919,774
2002-03	913,150
2003-04	281,548
2004-05	174,983
2005-06	<u>13,230</u>
Total	2,302,685
Less amount representing interest	<u>208,648</u>
Present value of net minimum lease payments	<u>\$2,094,037</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 6 - LEASES: (continued)

B. Operating Leases:

The District has entered into various operating leases for land, building, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payment under these agreements are as follows.

<u>Fiscal Year</u>	<u>Lease Payment</u>
2001-02	\$ 249,498
2002-03	281,406
2003-04	260,334
2004-05	210,760
2005-06	<u>216,826</u>
Total	<u>\$1,218,824</u>

NOTE 7 - CERTIFICATES OF PARTICIPATION:

- A. The agreement dated January 13, 1999, is between the Palomar Community College District as the "lessee" and the California Community College Corporation as the "lessor" or "corporation". The League Corporation is a legally separate entity which was formed for the purpose of capital improvement and then leasing such items to the participating district and to refinance the 1994 Certificates of Participation.

The Corporation's funds for acquiring these items were generated by the issuance of \$7,480,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments.

Lease Payments - Lease payments are required to be made by the District under the lease agreement on each April 1 and October 1 for use and possession of the equipment for the period commencing April 1, 1999 and terminating April 1, 2019. Lease payments will be funded in part from the proceeds of the Certificates. Interest rates range from 3.5% to 5.0% for the length of the issuance.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. Any amount held in the lease payment fund will be credited towards the lease payment due and payable. The trustee will pay from the lease payment fund the required principal and interest payments as follows:

<u>Lease Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
October 1, 2001	\$ 250,000	\$ 150,877	\$ 400,877
April 1, 2002		145,878	145,878
October 1, 2002	255,000	145,877	400,877
April 1, 2003		141,096	141,096
October 1, 2003	265,000	141,096	406,096
April 1, 2004		136,128	136,128
October 1, 2004	275,000	136,127	411,127
April 1, 2005		129,768	129,768
October 1, 2005	290,000	129,768	419,768
April 1, 2006		124,331	124,331
Thereafter	<u>5,595,000</u>	<u>1,970,802</u>	<u>7,565,802</u>
Total	<u>\$6,930,000</u>	<u>\$3,351,748</u>	<u>\$10,281,748</u>

- B. In October 1994, the Palomar Community College District Financing Corporation issued Certificates of Participation in the amount of \$6,875,000 with interest rates ranging from 4.30 percent to 6.50 percent. These certificates were refinanced in January 1999 and have been in-substance defeased. At June 30, 2001, \$6,005,000 of the 1994 Certificates of Participation were outstanding; approximately \$6,513,700 was in the escrow account at June 30, 2001 to pay off this debt.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 8 – OTHER ACCOUNTING DISCLOSURES:

- A. General fixed assets** - A schedule of changes in general fixed assets for the year ended June 30, 2001 is not available, as is common with many California Community College and school districts.
- B. Long-term debt** - A schedule of changes in long-term debt for the year ended June 30, 2001 is shown below.

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2001</u>
Certificates of Participation	\$ 7,170,000	\$	\$ 240,000	\$ 6,930,000
Accumulated Unpaid Employee Compensation	387,506	188,982		576,488
Postemployment Benefits	27,263,940			27,263,940
Capital Leases	<u>2,107,786</u>	<u>807,315</u>	<u>821,064</u>	<u>2,094,037</u>
Totals	<u>\$36,929,232</u>	<u>\$ 996,297</u>	<u>\$1,061,064</u>	<u>\$36,864,465</u>

NOTE 9 – ENTERPRISE FUNDS – FIXED ASSETS:

Fixed assets of the Enterprise Funds are recorded at cost or at fair market value at date of gift, if donated.

Useful lives used in the calculation of accumulated depreciation by major category of assets are as follows:

Buildings	10-20 years
Site Improvements	10-20 years
Furniture, Fixtures and Equipment	5-10 years

Depreciation is calculated on a straight-line basis. Depreciation expense for the fiscal year ended June 30, 2001 was \$15,563 for the Cafeteria Fund and \$58,678 for the Bookstore Fund.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 9 – ENTERPRISE FUNDS – FIXED ASSETS: (continued)

Balances by major class of assets at June 30, 2001 were as follows:

	<u>Cafeteria</u> <u>Fund</u>	<u>Bookstore</u> <u>Fund</u>	<u>Total</u>
Buildings	\$	\$ 643,213	\$ 643,213
Site Improvements	186,971	53,792	240,763
Furniture, Fixtures and Equipment	<u>116,455</u>	<u>432,259</u>	<u>548,714</u>
Total Fixed Assets	303,426	1,129,264	1,432,690
Accumulated Depreciation	<u>(219,646)</u>	<u>(530,158)</u>	<u>(749,804)</u>
Net Fixed Assets	\$ <u>83,780</u>	\$ <u>599,106</u>	\$ <u>682,886</u>

NOTE 10 - EMPLOYEE RETIREMENT PLANS:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2000-01 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over \$133.33 if the member participates in Social Security effective through December 31, 2000) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. There was no required employer contribution for fiscal year 2000-01. The contribution requirements of the plan members are established and may be amended by State statute.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT PLANS: (continued)

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

Year Ended <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
1999	\$1,860,098	100%	\$0	100%
2000	1,946,366	100%	0	100%
2001	2,041,285	100%	0	100%

NOTE 11 - RETIREE BENEFITS:

The District currently provides retiree medical or Medicare supplement coverage for employees that have rendered at least ten years of service for the District and have reached the age of 50 for PERS retirees or the age of 55 for STRS retirees. These benefits provide for both the employee and their spouse until death. For all new hires, after March, 1994, these benefits are provided only to age 65. The estimated total future liability, based upon an actuarial study dated March 4, 1999 for the year ended June 30, 2001 is approximately \$27 million. In 2000-01, the District paid approximately \$1,538,421 for retiree benefits. The District has budgeted \$1,469,178 for these benefits in 2001-02.

NOTE 12 - JOINT POWERS AGREEMENT:

The Palomar Community College District participates in four joint powers agreement (JPA) entities; the San Diego County Schools Risk Management JPA (SDCRM-JPA); the San Diego County Schools Fringe Benefits Consortium (SDCSFBC); the Statewide Association of Community Colleges (SWACC); and the Schools Excess Liability Fund (SELF). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes, as explained below.

The San Diego County Schools Risk Management JPA provides risk management to various school districts and community college districts throughout San Diego County. The San Diego County Schools Risk Management JPA's governing board is made up of one representative from each member district.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 12 - JOINT POWERS AGREEMENT: (continued)

The San Diego County Schools Fringe Benefits Consortium provides employee fringe benefits to various school districts and community college districts throughout San Diego County. The San Diego County Schools Fringe Benefits Consortium's governing board is made up of one representative from each member district.

The Statewide Association of Community Colleges provides property and liability coverage to various community college districts throughout California. SWACC is governed by a board consisting of one representative from each member district.

SELF arranges for and provides a self-funded or additional insurance for excess liability fund for approximately 1,100 public educational agencies. SELF is governed by a board of 16 elected voting members, elected alternates, and two ex-officio members. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SELF's board of directors and shares surpluses and deficits proportionately to its participation in SELF.

Condensed financial information of SDCRM-JPA, SDCSFBC, SWACC, and SELF for the most current information available is as follows:

	SDCRM-JPA 6/30/2000 <u>(Audited)</u>	SDCSFBC 6/30/2000 <u>(Audited)</u>	SWACC 6/30/2000 <u>(Audited)</u>	SELF 6/30/01 <u>(Unaudited)</u>
Total assets	\$26,453,659	\$10,941,125	\$15,990,762	\$113,385,207
Total liabilities	<u>10,743,855</u>	<u>4,198,737</u>	<u>6,717,990</u>	<u>81,333,257</u>
Retained earnings	<u>\$15,709,804</u>	<u>\$ 6,742,388</u>	<u>\$ 9,272,772</u>	<u>\$ 32,051,950</u>
Total revenues	\$27,162,416	\$36,142,590	\$ 5,213,556	\$ 16,902,889
Total expenditures	<u>25,703,830</u>	<u>36,032,678</u>	<u>6,836,290</u>	<u>(44,254,970)</u>
Net increase/(decrease) in retained earnings	<u>\$ 1,458,586</u>	<u>\$ 109,912</u>	<u>\$ (1,622,734)</u>	<u>\$ (27,352,081)</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 13 – ADJUSTMENTS FOR RESTATEMENT:

The beginning fund balance in the General Fund has been restated by \$584,026 due to a reinstatement of a bookstore debt which was forgiven in 1999-2000 and then later determined to be collectible in 2000-2001. Correspondingly, the beginning fund balance in the Bookstore Fund has been restated by \$(584,026).

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Bookstore Fund Fixed Assets

The Bookstore Fund was outsourced in November of 1999; the organization that took over the Bookstore operations purchased items such as inventory and credit memos through the negotiation process. However, the fixed assets have not been purchased as of the date of the report. Currently, the Bookstore is renting the building, cash registers and some computer equipment to the operator of the bookstore. As of the date of this report, it is not known how the fixed assets will be disposed or what amount, if any, will be received from the sale of these fixed assets. If these assets are not purchased by the Bookstore operator, the ownership of the building and equipment would revert back to the District.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(Continued)

NOTE 15 - SUBSEQUENT EVENT:

A. Tax Revenue Anticipation Notes

The District issued \$1,900,000 of Tax Revenue Anticipation Notes dated July 3, 2001 through the California Community College Financing Authority. The notes mature on June 28, 2002 and yield 2.60% interest. The notes were sold by the District to supplement its cash flow.

The funds will be held in a Guaranteed Investment Contract. Repayment requirements were that \$997,777 be deposited in January and April respectively to cover principal and interest payments.

B. Implementation of GASB Statement No. 34

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement prescribes a new financial reporting model that will restructure much of the information the District has presented in the past. Nation-wide implementation of GASB Statement No. 34 will be phased in over a three year period, beginning with larger districts. Since the District's 1998-99 revenues were between \$10 million and \$100 million, GASB Statement No. 34 is effective for fiscal year 2002-03.

PALOMAR COMMUNITY COLLEGE DISTRICT

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2001

	Child Development Fund	Escondido Tenancy Fund	Total (Memorandum Only)
<u>ASSETS</u>			
Cash in County Treasury	\$ 1,073,154	\$ -	\$ 1,073,154
Cash on Hand and in Banks		500,375	500,375
Accounts Receivable:			
Miscellaneous	4,565	10,000	14,565
Due From Other Funds	<u>85,222</u>		<u>85,222</u>
TOTAL ASSETS	<u>\$ 1,162,941</u>	<u>\$ 510,375</u>	<u>\$ 1,673,316</u>
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts Payable	\$ 81,973	\$ -	\$ 81,973
Due to Other Funds	535,207	7,590	542,797
Deferred Revenue	<u>280</u>	<u>8,728</u>	<u>9,008</u>
TOTAL LIABILITIES	<u>617,460</u>	<u>16,318</u>	<u>633,778</u>
FUND BALANCE			
Restricted for Special Purposes	545,481		545,481
Designated for Special Purposes		<u>494,057</u>	<u>494,057</u>
TOTAL FUND BALANCE	<u>545,481</u>	<u>494,057</u>	<u>1,039,538</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,162,941</u>	<u>\$ 510,375</u>	<u>\$ 1,673,316</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2001

	Child Development Fund			Escondido Tenancy Fund			Total (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Revenue from Federal Sources									
Other Federal Revenues	\$ 42,000	\$ 52,632	\$ 10,632	\$ -	\$ -	\$ -	\$ 42,000	\$ 52,632	\$ 10,632
Revenue from Other State Sources									
Other State Revenues	401,498	327,867	(73,631)				401,498	327,867	(73,631)
Revenue from Local Sources									
Interest and Investment Income	10,000	65,593	55,593	2,500	3,041	541	12,500	68,634	56,134
Rentals and Leases				186,745	196,145	9,400	186,745	196,145	9,400
Other Local Revenues	313,750	296,165	(17,585)	38,414	50,425	12,011	352,164	346,590	(5,574)
TOTAL REVENUES	<u>767,248</u>	<u>742,257</u>	<u>(24,991)</u>	<u>227,659</u>	<u>249,611</u>	<u>21,952</u>	<u>994,907</u>	<u>991,868</u>	<u>(3,039)</u>
EXPENDITURES									
Academic Salaries	336,805	306,704	30,101				336,805	306,704	30,101
Classified Salaries	186,997	171,432	15,565				186,997	171,432	15,565
Employee Benefits	124,138	93,202	30,936				124,138	93,202	30,936
Supplies and Materials	95,569	93,719	1,850				95,569	93,719	1,850
Other Operating Expenses & Services	28,596	29,165	(569)	144,729	147,013	(2,284)	173,325	176,178	(2,853)
Capital Outlay	10,868	6,186	4,682	84,000	54,270	29,730	94,868	60,456	34,412
TOTAL EXPENDITURES	<u>782,973</u>	<u>700,408</u>	<u>82,565</u>	<u>228,729</u>	<u>201,283</u>	<u>27,446</u>	<u>1,011,702</u>	<u>901,691</u>	<u>110,011</u>
Excess (deficiency) of revenues over expenditures	<u>(15,725)</u>	<u>41,849</u>	<u>57,574</u>	<u>(1,070)</u>	<u>48,328</u>	<u>49,398</u>	<u>(16,795)</u>	<u>90,177</u>	<u>106,972</u>
OTHER FINANCING SOURCES (USES)									
Interfund Transfers In	43,264	43,264	-				43,264	43,264	-
Interfund Transfers Out				(30,000)	(30,000)	-	(30,000)	(30,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>43,264</u>	<u>43,264</u>	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>	<u>13,264</u>	<u>13,264</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 27,539</u>	<u>85,113</u>	<u>\$ 57,574</u>	<u>\$ (31,070)</u>	<u>18,328</u>	<u>\$ 49,398</u>	<u>\$ (3,531)</u>	<u>103,441</u>	<u>\$ 106,972</u>
Fund Balances at beginning of year		<u>460,368</u>			<u>475,729</u>			<u>936,097</u>	
Fund Balances at end of year		<u>\$ 545,481</u>			<u>\$ 494,057</u>			<u>\$ 1,039,538</u>	

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

CAPITAL PROJECTS FUNDS
 COMBINING BALANCE SHEET
 June 30, 2001

	<u>Capital Outlay Fund</u>	<u>COP Capital Projects Fund</u>	<u>Energy Conservation Fund</u>	<u>Total (Memorandum Only)</u>
<u>ASSETS</u>				
Cash in County Treasury	\$ 6,565,096	\$ -	\$ 70,990	\$ 6,636,086
Cash Collections Awaiting Deposit	365,265			365,265
Investments with Fiscal Agent		5,384		5,384
Accounts Receivable:				
Federal and State Governments	451,072			451,072
Miscellaneous	24,719		-	24,719
Due From Other funds	829			829
TOTAL ASSETS	<u>\$ 7,406,981</u>	<u>\$ 5,384</u>	<u>\$ 70,990</u>	<u>\$ 7,483,355</u>
<u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES				
Accounts Payable	\$ 89,328	\$ -	\$ -	\$ 89,328
Due to Other Funds	85,222			85,222
Deferred Revenue			2,207	2,207
TOTAL LIABILITIES	<u>174,550</u>	<u>-</u>	<u>2,207</u>	<u>176,757</u>
FUND BALANCE				
Restricted for Special Purposes	1,758,781			1,758,781
Designated for Special Purposes	5,473,650	5,384	68,783	5,547,817
TOTAL FUND BALANCE	<u>7,232,431</u>	<u>5,384</u>	<u>68,783</u>	<u>7,306,598</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 7,406,981</u>	<u>\$ 5,384</u>	<u>\$ 70,990</u>	<u>\$ 7,483,355</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

CAPITAL PROJECTS FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2001

	Capital Outlay Fund			COP Capital Projects Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Revenue from State Sources						
Other State Revenue	\$ 1,168,199	\$ 466,337	\$ (701,862)	\$ -	\$ -	\$ -
Revenue from Local Sources						
Interest	200,000	270,050	70,050			
Other Local Revenue	2,639,956	940,267	(1,699,689)		278	278
TOTAL REVENUES	<u>4,008,155</u>	<u>1,676,654</u>	<u>(2,331,501)</u>	<u>-</u>	<u>278</u>	<u>278</u>
EXPENDITURES						
Classified Salaries						
Employee Benefits	47,190	46,470	720			
Books and Supplies	3,333,050	766,731	2,566,319			
Other Operating Expenses & Services	2,626,509	656,681	1,969,828			
Capital Outlay	6,006,749	1,469,882	4,536,867			
TOTAL EXPENDITURES	<u>(1,998,594)</u>	<u>206,772</u>	<u>2,205,366</u>	<u>-</u>	<u>278</u>	<u>278</u>
Excess (deficiency) of revenues over expenditures						
OTHER FINANCING SOURCES (USES)						
Interfund Transfers In	1,124,738	1,143,492	18,754			
Interfund Transfers Out	(1,240,000)	(1,240,000)	-			
TOTAL OTHER FINANCING SOURCES (USES)	<u>(115,262)</u>	<u>(96,508)</u>	<u>18,754</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)						
Fund Balances at beginning of year	<u>\$ (2,113,856)</u>	<u>110,264</u>	<u>\$ 2,224,120</u>	<u>\$ -</u>	<u>278</u>	<u>\$ 278</u>
Fund Balances at end of year		<u>7,122,167</u>			<u>5,106</u>	
		<u>\$ 7,232,431</u>			<u>\$ 5,384</u>	

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

CAPITAL PROJECTS FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2001

	Energy Conservation Fund			Total (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Revenue from State Sources						
Other State Revenue	\$ -	\$ -	\$ -	1,168,199	466,337	(701,862)
Revenue from Local Sources						
Interest	5,000	5,043	43	205,000	275,093	70,093
Other Local Revenue	-	(2,207)	(2,207)	2,639,956	938,338	(1,701,618)
TOTAL REVENUES	<u>5,000</u>	<u>2,836</u>	<u>(2,164)</u>	<u>4,013,155</u>	<u>1,679,768</u>	<u>(2,333,387)</u>
EXPENDITURES						
Classified Salaries	4,593	-	4,593	4,593	-	4,593
Employee Benefits	407	-	407	407	-	407
Books and Supplies				47,190	46,470	720
Other Operating Expenses & Services	5,000	-	5,000	3,338,050	766,731	2,571,319
Capital Outlay	7,207	-	7,207	2,633,716	656,681	1,977,035
TOTAL EXPENDITURES	<u>17,207</u>	<u>-</u>	<u>17,207</u>	<u>6,023,956</u>	<u>1,469,882</u>	<u>4,554,074</u>
Excess (deficiency) of revenues over expenditures	(12,207)	2,836	15,043	(2,010,801)	209,886	2,220,687
OTHER FINANCING SOURCES (USES)						
Interfund Transfers In						
Interfund Transfers Out				1,124,738	1,143,492	18,754
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(115,262)</u>	<u>(96,508)</u>	<u>18,754</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	\$ (12,207)	\$ 2,836	\$ 15,043	\$ (2,126,063)	\$ 113,378	\$ 2,239,441
Fund Balances at beginning of year		65,947			7,193,220	
Fund Balances at end of year		<u>\$ 68,783</u>			<u>\$ 7,306,598</u>	

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND TYPES - ENTERPRISE FUNDS
 COMBINING BALANCE SHEET
 June 30, 2001

	<u>Cafeteria Fund</u>	<u>Bookstore Fund</u>	<u>Total (Memorandum Only)</u>
<u>ASSETS</u>			
Cash on Hand and in Banks	\$ 201,091	\$ 88,405	\$ 289,496
Accounts Receivable:			
Miscellaneous	3,533	173,101	176,634
Due from Other Funds	5,603	62,533	68,136
Stores Inventory	38,617		38,617
Fixed Assets	<u>83,780</u>	<u>599,106</u>	<u>682,886</u>
TOTAL ASSETS	<u>\$ 332,624</u>	<u>\$ 923,145</u>	<u>\$ 1,255,769</u>
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts Payable	\$ 18,292	\$ 6,977	\$ 25,269
Due to Other Funds	<u>315,014</u>	<u>584,026</u>	<u>899,040</u>
TOTAL LIABILITIES	<u>333,306</u>	<u>591,003</u>	<u>924,309</u>
FUND EQUITY			
Retained Earnings	<u>(682)</u>	<u>332,142</u>	<u>331,460</u>
TOTAL FUND EQUITY	<u>(682)</u>	<u>332,142</u>	<u>331,460</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 332,624</u>	<u>\$ 923,145</u>	<u>\$ 1,255,769</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
PROPRIETARY FUND TYPES - ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
For the Fiscal Year Ended June 30, 2001

	<u>Cafeteria Fund</u>	<u>Bookstore Fund</u>	<u>Total (Memorandum Only)</u>
OPERATING REVENUES			
Sales	\$ 1,269,973	\$ -	\$ 1,269,973
Revenue from Local Sources	<u>10,096</u>	<u>42,761</u>	<u>52,857</u>
Total Operating Revenues	<u>1,280,069</u>	<u>42,761</u>	<u>1,322,830</u>
OPERATING EXPENSES			
Classified Salaries	473,273		473,273
Employee Benefits	62,989		62,989
Supplies	729,715	1,404	731,119
Other Operating Expenses & Services	66,700	62,586	129,286
Capital Outlay	<u>7,681</u>	<u>4,425</u>	<u>12,106</u>
Total Operating Expenses	<u>1,340,358</u>	<u>68,415</u>	<u>1,408,773</u>
Operating Loss	(60,289)	(25,654)	(85,943)
NON-OPERATING REVENUES			
Interest Income	<u>3,548</u>	<u>2,501</u>	<u>6,049</u>
Net Loss	<u>(56,741)</u>	<u>(23,153)</u>	<u>(79,894)</u>
RETAINED EARNINGS - Beginning of year, as previously reported	56,059	939,321	995,380
Adjustment for Restatement (See Note 13)		<u>(584,026)</u>	<u>(584,026)</u>
RETAINED EARNINGS - End of year, as adjusted	<u>\$ (682)</u>	<u>\$ 332,142</u>	<u>\$ 331,460</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
PROPRIETARY FUND TYPES - ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2001

	<u>Cafeteria Fund</u>	<u>Bookstore Fund</u>	<u>Total (Memorandum Only)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from sales	\$ 1,277,443	\$ 80,186	\$ 1,357,629
Cash received from local sources	10,096	42,761	52,857
Cash paid to vendors and employees	<u>(1,548,576)</u>	<u>(28,096)</u>	<u>(1,576,672)</u>
Net cash provided (used) by operating activities	<u>(261,037)</u>	<u>94,851</u>	<u>(166,186)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>3,548</u>	<u>2,501</u>	<u>6,049</u>
Net cash provided by investing activities	<u>3,548</u>	<u>2,501</u>	<u>6,049</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of fixed assets	(1,964)		(1,964)
Other transfers out		<u>(575,250)</u>	<u>(575,250)</u>
Net cash used by financing activities	<u>(1,964)</u>	<u>(575,250)</u>	<u>(577,214)</u>
Net (Decrease) in Cash	(259,453)	(477,898)	(737,351)
Cash - July 1, 2000	<u>460,544</u>	<u>566,303</u>	<u>1,026,847</u>
Cash - June 30, 2001	<u>\$ 201,091</u>	<u>\$ 88,405</u>	<u>\$ 289,496</u>

**Reconciliation of Operating Loss
to Net Cash Provided (Used) by Operating Activities**

Operating Loss	\$ (60,289)	\$ (25,654)	\$ (85,943)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	15,563	58,678	74,241
(Increase)/Decrease in accounts receivable	5,689	80,186	85,875
(Increase)/Decrease in due from other funds	1,781		1,781
(Increase)/Decrease in inventory	(5,833)		(5,833)
(Increase)/Decrease in prepaid expenses	46		46
Increase/(Decrease) in accounts payable	13,731	(18,359)	(4,628)
Increase/(Decrease) in due to other funds	<u>(231,725)</u>		<u>(231,725)</u>
Net Increase (Decrease) in Cash from Operating Activities	<u>\$ (261,037)</u>	<u>\$ 94,851</u>	<u>\$ (166,186)</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUND TYPES
COMBINING BALANCE SHEET
June 30, 2001

	Student Financial Aid Fund	Associated Student Government Fund	Scholarship and Loan Trust Fund	Student Representation Fund	Student Center Fee Fund	Total Memorandum (Memorandum Only)
ASSETS						
Cash in County Treasury	\$ -	\$ -	\$ 860,548	\$ 126,032	\$ 289,708	\$ 1,276,288
Cash on Hand and in Banks:						
Cash in Checking	254,957	43,437	850			299,244
Cash in Savings		65,669				65,669
Cash Collections Awaiting Deposit		108				108
Accounts Receivable:						
Miscellaneous	227,014	4,450	9,630	443	51,560	283,467
Due from Other Funds	9,817			14,601	34,162	68,210
TOTAL ASSETS	\$ 491,788	\$ 113,664	\$ 871,028	\$ 141,076	\$ 375,430	\$ 1,992,986
LIABILITIES AND FUND EQUITY						
Accounts Payable	\$ 189,772	\$ 857	\$ 4,540	\$ -	\$ -	\$ 195,169
Due to Other Funds	168,058		27,331			195,389
Amounts Held in Trust		85,406			26,941	85,406
Deferred Revenue						26,941
TOTAL LIABILITIES	357,830	86,263	31,871	-	26,941	502,905
FUND BALANCE						
Restricted for Special Purposes	133,958	27,401	839,157	141,076	348,489	1,462,680
Designated for Special Purposes						27,401
TOTAL FUND BALANCE	133,958	27,401	839,157	141,076	348,489	1,490,081
TOTAL LIABILITIES AND FUND BALANCE	\$ 491,788	\$ 113,664	\$ 871,028	\$ 141,076	\$ 375,430	\$ 1,992,986

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUND TYPES
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 For the Fiscal Year Ended June 30, 2001

	Student Financial Aid Fund	Associated Student Government Fund	Scholarship and Loan Trust Fund	Student Representation Fund	Student Center Fee Fund	Total Memorandum (Memorandum Only)
REVENUES						
Revenue from Federal Sources						
Student Financial Aid	\$ 3,796,008	\$ -	\$ -	\$ -	\$ -	\$ 3,796,008
Revenue from State Sources						
Other State Income	183,417	43,065				226,482
Revenue from Local Sources						
Interest		1,207	49,664	8,773	12,685	72,329
Other Local Revenue	4,871	28,060	606	25,402	168,528	227,467
TOTAL REVENUES	<u>3,984,296</u>	<u>72,332</u>	<u>50,270</u>	<u>34,175</u>	<u>181,213</u>	<u>4,322,286</u>
EXPENDITURES						
Classified Salaries		3,458				3,458
Supplies and Materials		27,609		755		28,364
Other Operating Expenses & Services	3,247	71,952	16,609	24,523		116,331
Capital Outlay		11,207		1,074		12,281
TOTAL EXPENDITURES	<u>3,247</u>	<u>114,226</u>	<u>16,609</u>	<u>26,352</u>	<u>-</u>	<u>160,434</u>
Excess (deficiency) of revenues over expenditures	<u>3,981,049</u>	<u>(41,894)</u>	<u>33,661</u>	<u>7,823</u>	<u>181,213</u>	<u>4,161,852</u>
OTHER FINANCING SOURCES (USES)						
Interfund Transfers In	16,315	47,249				63,564
Interfund Transfers Out	(3,971,791)	(2,550)				(2,550)
Student Financial Aid						(3,971,791)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,955,476)</u>	<u>44,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,910,777)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>25,573</u>	<u>2,805</u>	<u>33,661</u>	<u>7,823</u>	<u>181,213</u>	<u>251,075</u>
Fund Balances at Beginning of Year	<u>108,385</u>	<u>24,596</u>	<u>805,496</u>	<u>133,253</u>	<u>167,276</u>	<u>1,239,006</u>
Fund Balances at End of Year	<u>\$ 133,958</u>	<u>\$ 27,401</u>	<u>\$ 839,157</u>	<u>\$ 141,076</u>	<u>\$ 348,489</u>	<u>\$ 1,490,081</u>

See the accompanying notes to the financial statements.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENÉE S. GRAVES
CARL PON
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. MCCUTCHEON
KARIN HECKMAN NELSON
ARVEE ROBINSON

We have audited the combined general purpose financial statements of Palomar Community College District, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 28, 2001. These general purpose financial statements are the responsibility of Palomar Community College District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the combined general purpose financial statements of Palomar Community College District, taken as a whole. The accompanying financial information identified as supplementary information, including the Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined general purpose financial statements and in our opinion is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

September 28, 2001

VICENTI, LLOYD & STUTZMAN LLP

PALOMAR COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2001

The Palomar Community College District was established in January, 1945, to provide higher education to the communities of North San Diego County. The first classes were held in September, 1946. The College is located in San Marcos and draws students from the communities of Escondido, San Marcos, Poway, Vista, Ramona and surrounding areas. Classes are currently held on the main campus in San Marcos as well as satellite campus centers in Escondido, Ramona, Poway, Mt. Carmel, Pauma Valley, Borrego Springs, Fallbrook and Camp Pendleton.

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Michele T. Nelson, Ph.D.	President	2002
Robert L. Dougherty, Jr., MD	Vice President	2002
Darrell L. McMullen	Secretary	2004
Ralph G. Jensen	Trustee	2004
Silverio H. Haro	Trustee	2002
Sean Weimer	Student Trustee	2002

DISTRICT EXECUTIVE OFFICERS

John D. Randall, Ed.D.	Interim Superintendent/President*
Diane Michael	Assistant Superintendent/Vice President, Instruction
Joseph Madrigal	Assistant Superintendent/Vice President, Student Services
Jerry R. Patton	Assistant Superintendent/Vice President, Finance and Administrative Services
Jack Miyamoto, Ph.D.	Assistant Superintendent/Vice President, Human Resources And Affirmative Action
Gene M. Jackson	Dean, Arts and Languages
Mark Vernoy, Ph.D.	Interim Dean, Human Arts and Sciences
Michael R. Rourke, Ph.D.	Dean, Mathematics and the Natural and Health Sciences
William J. Flynn	Dean, Media, Business and Community Services
Wilma Owens	Interim Dean, Vocational Technology
Judy Eberhart	Dean, Counseling, Guidance, and Career Development
Lise S. Telson	Dean, Student Support Programs
Dale K. Wallenius	Chief Advancement Officer and Vice President to the Foundation

*Effective July 1, 2001 Sherrill L. Amador, Ed.D. became the Superintendent/President.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal year Ended June 30, 2001

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number *	Program Entitlements			Program Revenues			Total Program Expenditures and Encumbrances
			Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Income	
U.S. Department of Education									
SEOG	84-007	N/A	\$ 219,439	\$ -	\$ 219,439	\$ 219,439	\$ -	\$ -	\$ 219,439
SEOG Administrative allowance	84-007	N/A	30,131		30,131	46,915	5,598	22,382	30,131
Pell Grant- Administrative allowance	84-063	N/A	28,580		28,580	18,425			18,425
Pell Grant	84-063	N/A	1,887,458		1,887,458	1,848,025			1,848,025
Higher Education Act:									
Federal Workstudy	84-033	N/A	316,446		316,446	225,768	30,161		255,929
Veterans Education	64-112	N/A	16,339		16,339	14,680		11,794	2,886
TRIO Student Support Services	84-042A	N/A	1,058,968		1,058,968	217,666	55,366		273,032
TRIO Upward Bound	84-047A	N/A	1,779,863		1,779,863	548,133	159,230		707,363
Gear-Up	84-334A	N/A	2,818,056		2,818,056	903,775	176,892		1,080,667
Job Location and Development	84-047A	N/A	1,200	1,200	1,200	38			38
Vocational Technology Education Act:									
Leadership IIC	84-048	13920	224,054	42,678	266,732	208,882	56,013		264,895
ROP	84-048	N/A	82,838		82,838	74,716	7,547		82,263
Tech Prep	84-243	13929	63,900		63,900	51,448		12,871	38,577
Direct Loans			477,742		477,742	477,742			477,742
Small Business Administration									
Resource Grant	59-037	N/A	1,800		1,800	1,800		1,800	-
U.S. Department of Justice									
Dept of Justice/ COPS	16-710	N/A	184,723		184,723	43,764	56,044		99,808
U.S. Department of Health and Human Services									
TANF	93-558	N/A	69,839		69,839	69,839			69,839
Child Development Training Consortium	93-575	13967	21,858		21,858	21,857		5,194	16,663
U.S. Department of Agriculture									
Child Nutrition	10-555	03755	52,632		52,632	51,018	1,614		52,632
U.S. Department of the Interior									
Bureau of Indian Affairs	15-048	N/A	10,775		10,775	10,775			10,775
Total Federal Programs			\$ 9,345,441	\$ 43,878	\$ 9,389,319	\$ 5,054,705	\$ 548,465	\$ 54,041	\$ 5,549,129

* N/A indicates not available and/or not applicable.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended June 30, 2001

Program Name	Program Entitlements			Program Revenues				Total Program Expenditures and Encumbrances
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Income	Total	
State Categorical Aid Programs:								
BFAP, BRD Financial Assistance Program	\$ 57,207	\$ 8,773	\$ 65,980	\$ 65,980	\$ -	\$ 2,574	\$ 63,406	\$ 63,406
Block Grants	2,324,195	127,501	2,451,696	2,451,696		714,392	1,737,304	1,737,304
Cal Works	503,772	25,138	528,910	510,649		20,080	490,569	490,569
California Articulation Number	5,975	1,349	7,324	2,148	3,979		6,127	6,127
CCC Satellite Network	2,019,983		2,019,983	1,718,217	258,069		1,976,286	1,976,286
Disabled Student Programs and Services	697,349	5,321	702,670	699,316		33,301	666,015	666,015
Education Network Grant	4,000	5,463	9,463	9,463		5,572	3,891	3,891
Extended Opportunity Programs Services	1,018,336	73,800	1,092,136	1,092,136			1,092,136	1,092,136
Fund for Student Success- Institutionalization	22,524		22,524	4,213	9,361		13,574	13,574
Fund for Student Success- Instructional Grant	57,975	1,348	59,323	1,348	125	1,348	125	125
Fund for Student Success- Planning	56,642		56,642	42,482		9,602	32,880	32,880
Lottery Prop 20 - Instructional Materials	246,455	40,366	286,821	286,821		152,839	133,982	133,982
Matriculation	1,115,386	42,081	1,157,467	1,153,293			1,153,293	1,153,293
Matriculation Think Tank	32,000		32,000	24,000	8,000		32,000	32,000
Media Center	824		824	824		824	-	-
Staff Development	80,440	63,505	143,945	143,945		44,596	99,349	99,349
Staff Diversity	20,899	3,807	24,706	24,705		9,618	15,087	15,087
Student Equity Mentor		2,341	2,341	2,341		275	2,066	2,066
TANF	69,839		69,839	69,839		187	69,652	69,652
TeleModel Pilot Project	299,825	98,228	398,053	244,806		25,966	218,840	218,840
Telecommunications and Technology	344,015	792,740	1,136,755	661,113		329,369	331,744	331,744
Telecommunications Systemwide Project	2,299,948		2,299,948	2,069,953		1,757,236	312,717	312,717
Transfer and Articulation Allocation	17,129	38,417	55,546	44,902		14,831	30,071	30,071
Total State Programs	\$ 11,294,718	\$ 1,330,178	\$ 12,624,896	\$ 11,324,190	\$ 279,534	\$ 3,122,610	\$ 8,481,114	\$ 8,481,114

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR PROGRAM BASED FUNDING

For the Fiscal Year Ended June 30, 2001

Categories

A.	Credit Full-Time Equivalent Students	
1.	Weekly census	10,991.95
2.	Daily census	943.67
3.	Actual hour of attendance	1,063.25
4.	Independent study/work experience	841.03
5.	Summer intersession	<u>1,685.69</u>
	Total	<u>15,525.59</u>
B.	Non-Credit FTES	
1.	Actual hour of attendance	1,308.00
2.	Summer intersessions	264.30
3.	Independent Study	<u>0.47</u>
	Total	<u>1,572.77</u>
C.	Basic Skills Courses	
1.	Credit	688.68
2.	Non-Credit	<u>880.68</u>
	Total	<u>1,569.36</u>
	Gross Square Footage	
	Existing Facilities	<u>630,815</u>
	FTES in Leased Facilities	<u>1,268.24</u>

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2001

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>COP Capital Projects Fund</u>	<u>Student Financial Aid Fund</u>	<u>Associated Student Government Fund</u>
June 30, 2001 Annual Financial and Budget Report and Fund Balance	\$11,053,935	\$ -	\$ -	\$171,973	\$112,807
Adjustments and Reclassifications:					
Under (Over) Statement of Beginning Balance		552,170		(34,823)	
(Under) Statement of Accounts Payable	(335,881)				
Under (Over) Statement of Revenues		70,675	<u>5,384</u>	(3,192)	(85,406)
Under Statement of COPs activity					
Net Adjustments and Reclassifications	<u>(335,881)</u>	<u>622,845</u>	<u>5,384</u>	<u>(38,015)</u>	<u>(85,406)</u>
June 30, 2001 Audited Financial Statements Fund Balance	<u>\$10,718,054</u>	<u>\$622,845</u>	<u>\$5,384</u>	<u>\$133,958</u>	<u>\$ 27,401</u>

Notes:

COP Capital Projects Fund:

The Chancellor's Office does not require the Certificates of Participation to be recorded on the books of the District.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30,

	<u>(Budget) 2002</u>		<u>2001</u>		<u>2000</u>		<u>1999 *</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>GENERAL FUND:</u>								
<u>Revenue</u>								
Federal	\$ 1,809,640	1.85	\$ 1,700,489	2.05	\$ 1,316,956	1.70	\$ 1,012,947	1.53
State	38,635,379	39.51	35,411,782	42.66	34,037,564	43.90	32,882,124	49.79
County and Local	46,628,323	47.68	44,936,631	54.13	42,096,383	54.30	36,273,985	54.93
Total Revenue	<u>87,073,342</u>	<u>89.04</u>	<u>82,048,902</u>	<u>98.84</u>	<u>77,450,903</u>	<u>99.90</u>	<u>70,169,056</u>	<u>106.25</u>
<u>Expenditures</u>								
Academic Salaries	34,426,153	35.20	32,578,581	39.24	30,397,413	39.21	29,173,338	44.18
Classified Salaries	22,021,635	22.52	20,062,304	24.17	18,109,252	23.36	15,696,466	23.77
Employee Benefits	12,920,478	13.21	10,769,316	12.97	9,675,248	12.48	9,433,617	14.29
Supplies and Materials	2,249,614	2.30	2,026,963	2.44	1,617,616	2.09	1,563,045	2.37
Other Operating Expenses & Services	13,372,385	13.67	11,315,538	13.63	9,201,144	11.87	7,521,511	11.39
Capital Outlay	4,166,693	4.27	5,238,834	6.32	5,547,539	7.15	4,121,572	6.24
Other Uses (net)	8,634,438	8.83	1,022,565	1.23	2,977,841	3.84	(1,471,676)	(2.23)
Total Expenditures	<u>97,791,396</u>	<u>100.00</u>	<u>83,014,101</u>	<u>100.00</u>	<u>77,526,053</u>	<u>100.00</u>	<u>66,037,873</u>	<u>100.00</u>
Change in Fund Balance	<u>\$ (10,718,054)</u>	<u>(10.96)</u>	<u>\$ (965,199)</u>	<u>(1.16)</u>	<u>\$ (75,150)</u>	<u>(0.10)</u>	<u>\$ 4,131,183</u>	<u>6.26</u>
Adjustment for Restatement	<u>\$ -</u>	<u>-</u>	<u>\$ 584,026</u>	<u>0.70</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Ending Fund Balance	<u>\$ -</u>	<u>-</u>	<u>\$ 10,718,054</u>	<u>12.91</u>	<u>\$ 11,099,227</u>	<u>14.32</u>	<u>\$ 11,174,377</u>	<u>16.92</u>
Full-Time Equivalent Students	<u>17,098</u>		<u>17,098</u>		<u>15,211</u>		<u>15,449</u>	
Total Long-Term Debt	<u>\$ 35,694,691</u>		<u>\$ 36,864,465</u>		<u>\$ 36,929,232</u>		<u>\$ 36,842,513</u>	

IMPORTANT NOTES:

(1) For 1999, 2000 and 2001 all percentages are of total expenditures excluding contingencies; for 2002, the expenditures include an amount budgeted for contingencies.

(2) The California Community College Chancellor's Office has provided guidelines that recommend an ending fund balance of 3% of expenditures as a minimum, with a prudent ending fund balance being 5% of expenditures.

* This year was audited by another firm.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2001

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedules of Expenditures of Federal Awards and State Financial Assistance

The audit of the Palomar Community College District for the year ended June 30, 2001 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the Palomar Community College District on the modified accrual basis of accounting.

B. Schedule of Workload Measures for Program-Based Funding

The Schedule of Workload Measures for Program-Based Funding represents the basis of apportionment of the Palomar Community College District's annual source of funding.

C. Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Form CCFS-311 to the audited financial statements.

D. Schedule of Financial Trends and Analysis

This report is prepared to show financial trends of the General Fund over the past three fiscal years as well as the current year budget. This report is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENÉE S. GRAVES
CARL PON
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. MCCUTCHEON
KARIN HECKMAN NELSON
ARVEE ROBINSON

Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

We have audited the combined general purpose financial statements of Palomar Community College District (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 28, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether Palomar Community College District's combined general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as related to general purpose financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palomar Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

(Continued)

Internal Control Over Financial Reporting (continued)

over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Palomar Community College District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs related to the general purpose financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe finding 01-4 described in the accompanying schedule of findings and questioned costs related to the general purpose financial statements is a material weakness.

This report is intended solely for the information and use of the Board, management, the State Department of Finance, the State Chancellor's Office and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

VICENTI, LLOYD & STUTZMAN LLP

September 28, 2001

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

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Compliance

We have audited the compliance of Palomar Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Palomar Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Palomar Community College District's management. Our responsibility is to express an opinion on Palomar Community College District's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Palomar Community College 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. Our audit does not provide a legal determination on Palomar Community College District's compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

In our opinion, Palomar Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of Palomar Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Palomar Community College District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board, management, the State Department of Finance, the State Chancellor's Office and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

VICENTI, LLOYD & STUTZMAN LLP

September 28, 2001

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REPORT ON STATE COMPLIANCE

Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

We have audited the combined general purpose financial statements of the various funds and account groups of the Palomar Community College District, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 28, 2001. In our report, our opinion was qualified because the District has not maintained a complete record of the historical cost of its general fixed assets.

Our examination was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we performed an audit for compliance as required in Part II, State and Federal Compliance Requirements for those programs identified in the State Department of Finance's 2001 transmittal of audit requirements for community colleges. The objective of the examination of compliance applicable to Palomar Community College District is to determine with reasonable assurance:

- Whether the District's salaries of classroom instructors equal or exceed 50 percent of the District's current expense of education in accordance with Section 84362 of the Education Code.
- Whether the District's salaries of instructors teaching FTES generating classes, school counselors providing academic advisement, and financial aid officers conducting need analysis tests, are not considered supportable charges against either Extended Opportunity Programs and Services (EOPS) or Disabled Student Program Services (DSPS) accounts unless their activities require them to perform additional functions for the EOPS or DSPS program which are beyond the scope of services provided to all students in the normal performance of the regular duty assignments.

AUDITORS' REPORT ON STATE COMPLIANCE

(Continued)

- Whether the District contributed 100% of the salary and benefits for the EOP&S Director/Administrator from funds other than EOP&S. In addition, the District must employ a full-time 100% Director to manage the daily operations of the EOP&S program unless a waiver has been obtained.
- Whether the District has the ability to support timely accurate and complete information for workload measures used in the calculation of State General Apportionment.
- Whether the District has claimed for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date.
- Whether the Gann Limit Calculation was properly supported by adequate documentation and approved by the governing board.
- Whether the District had local funds to support at least 75 percent of the matriculation activities and that all matriculation expenditures are consistent with the District's State approved matriculation plan. Also, whether the District used the State matriculation allocation to expand levels of services that were in place in 1986-87 or to add entirely new services.
- Whether the District has the appropriate documentation to support the FTES, if any, that are claimed for instructional service agreements/contracts.
- Whether the District is reporting the total amount that students should have paid for enrollment fees for the purpose of determining the District's share of annual apportionment.
- Whether the District is complying with the standard grant conditions for the Economic Development Program as well as all state laws and regulations concerning: 1) procedures for subcontracts or grant amendments, including appropriate authorization by the Chancellor's Office; 2) procurement procedures; 3) travel authorization; 4) hiring procedures; and 5) appropriate use of fiscal agents.
- Whether the District spent at least one dollar of District funds for each dollar provided by the State for scheduled maintenance and special repairs. Funds provided by the State must be to supplement, not supplant, District deferred maintenance funds. The amount expended for plant maintenance and operations during the base year of 1995-96 was \$3,447,456.

AUDITORS' REPORT ON STATE COMPLIANCE

(Continued)

In our opinion, except for findings 01-1 and 01-2 described in the accompanying schedule of findings and questioned costs, Palomar Community College District complied with the compliance requirements for the state programs listed and tested above. Nothing came to our attention as a result of the aforementioned procedures to indicate that Palomar Community College District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

Our examination of compliance made for the purposes set forth in the preceding paragraph of this report would not necessarily disclose all instances of noncompliance. However, such audit of compliance disclosed findings 01-1 and 01-2 that we believe to be instances of noncompliance. These items are described in the accompanying Schedule of Findings and Questioned Costs as Related to the General Purpose Financial Statements.

This report is intended solely for the information and use of the Board, management, the State Department of Finance, and the State Chancellor's Office and is not intended to be and should not be used by anyone other than these specified parties.

VICENTI, LLOYD & STUTZMAN LLP

September 28, 2001

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2001

This information is provided to meet the requirements of OMB Circular A-133.

- A. A qualified opinion was issued as the District does not maintain a general fixed asset account group as is common in most California Community College Districts.
- B. Reportable conditions in internal control were disclosed by the audit of the general purpose financial statements; finding 01-4 of the reportable conditions is believed to be a material weakness.
- C. The audit did not disclose any items of non-compliance which are material to the general purpose financial statements of the District.
- D. There were no reportable conditions in internal control over major programs.
- E. An unqualified opinion was issued on compliance for major programs.
- F. There were no audit findings which are required to be reported under Section .510(a) of OMB Circular A-133.
- G. The major programs for 2000-01 are:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033 and 84.063	Student Financial Assistance Cluster of Programs
84.048	VTEA – Leadership IIC
84.042A	TRIO – Student Support Services

- H. The dollar threshold to distinguish between Type A and Type B programs is \$300,000 for 2000-01.
- I. The District does not qualify as a low risk auditee for fiscal year 2000-01 due to the item noted in item A above.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

FINDING 01-1 – MULTI-FUNDED POSITIONS – DSP&S AND EOPS

Original Finding 00-1

Finding: During testing, we noted that time sheets are not prepared for employees whose salaries are split funded between DSP&S and EOPS.

Recommendation: Split funded employees should keep adequate time sheets to properly support their funding allocations.

District Response: Employees in DSP&S and EOPS split-funded positions are currently filling in daily/weekly timesheets. The recommended procedures have been implemented.

FINDING 01-2 – FULL-TIME EQUIVALENT STUDENTS (FTES)

Original Finding 00-3

Finding: During testing, we noted instances where instructor drop sheets indicated that a student had dropped the class before the census date but was not removed from the District's computer system and was thus included in the FTES total that was reported on the second period CCFS-323.

Recommendation: To ensure adequate reporting on the CCFS-323 reports, instructors should turn in all drop sheets on a timely basis and the Admissions office should input these drops into the system to properly ensure that the District is not over claiming FTES.

District Response: The District has fully implemented online drop rosters where drops are immediately processed as soon as the instructor reports. This process should eliminate the lag time experienced with paper processing.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

(Continued)

FINDING 01-3 – STUDENT CENTER FEE FUND

Finding: During our testing of the Student Center Fee Fund, it was noted that the District is not collecting registration fees from students in a timely manner.

Recommendation: The District should implement procedures to ensure that students with outstanding unpaid registration fees pay off their outstanding balance before they are allowed to register for classes for the following semester.

District Response: The implementation of the new software system, PeopleSoft, caused delays in billing students and multiple errors in student accounts. As all of the students had not been billed in a timely manner, the District chose to allow students to register for classes while having outstanding balances owed. Staff is manually placing holds on many of those student accounts where it appears that no errors have occurred. Also, staff is currently cleaning up the errors in student accounts, and is working on a program to stop a student from registering if he/she has outstanding debts. This new procedure will be in place for Summer of 2002 registration. Staff is also personally calling those with outstanding debts to remind them of their obligation.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

(Continued)

FINDING 01-4 – ACCOUNTS PAYABLE

Finding: We noted the following areas that need improvement related to the District's procedures for accruing liabilities at year-end:

- The District is not properly accruing liabilities at year-end. Currently, year-end accruals are generated as a result of any open balances on purchase orders that have been entered into the system. It was also noted that, in some cases, department supervisors were being given the option of whether they wanted an item accrued as a liability at fiscal year-end or carried forward and shown as an expense in the following year.
- As a result of the improper accrual procedures, several categorical program expenditures were misstated. Through further research, it was determined that grant managers were generating as many purchase orders as needed at year-end to have it appear as if more of the program entitlement had been spent. Through inquiry, it was noted that this was being done to avoid a payable of awarded funds for programs that do not allow a carryover.

Recommendation: The District should only accrue valid liabilities at year-end. The criteria used to determine a valid liability should be based on whether or not the goods or services were received by the District on or before June 30.

District Response: Several informative sessions have been held to date reviewing the necessity of adhering to closing dates for purchasing and accounting guidelines with the various restricted and non-restricted funded programs. Those programs that are able to obtain an exemption from the funding authority may be allowed an exception to the closing dates. In addition, accounts payable staff will undergo training in January on procedures for closing and accruing liabilities. Closing dates at fiscal year-end will be strictly adhered to in the future and accrual of liabilities will be based on receipt of goods and services on or before June 30.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2001

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2001.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2001

<u>Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
00-1	<p><u>MULTI-FUNDED POSITIONS – DSP&S AND EOPS</u></p> <p>During testing, we noted that time sheets are not prepared for employees whose salaries are split funded between DSP&S and EOPS.</p>	<p>Split funded employees should keep adequate time sheets to properly support their funding allocations.</p>	<p>Not implemented. See current year finding 01-1.</p>
00-2	<p><u>PAYROLL</u></p> <p>We noted the following issues related to the District's Payroll functions:</p> <ul style="list-style-type: none"> • Payroll tax returns had not been prepared for the third and fourth quarters of calendar year 1999 and for the first and second quarters of calendar year 2000. • The District prepared and issued W-2 forms to its employees but did not send these forms to the Internal Revenue Service (IRS). 	<p>We have the following recommendations related to the above findings:</p> <ul style="list-style-type: none"> • In order to comply with IRS guidelines and to avoid or minimize penalties, the District should prepare and file their payroll tax returns on a timely basis. • All W-2 forms should be promptly sent to the IRS. 	<p>Implemented.</p>

PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2001

<u>Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
00-3	<p><u>FULL-TIME EQUIVALENT STUDENTS (FTES)</u></p> <p>During testing, we noted one instance where an instructor's drop sheet indicated that a student had dropped the class before the census date but was not removed from the District's computer system and was thus included in the FTES total that was reported on the second period CCFS-323.</p>	<p>To ensure adequate reporting on the CCFS-323 reports, instructors should turn in all drop sheets on a timely basis and the Admissions office should input these drops into the system to properly ensure that the District is not over claiming FTES.</p>	<p>Not implemented. See current year finding 01-2.</p>
00-4	<p><u>INFORMATION SYSTEMS</u></p> <p>Original Finding #99-3</p> <p>The District fully implemented a new computer software system to handle their financial reporting and student services functions. During our testing, we noted that the system had some reporting limitations.</p>	<p>To make up for these limitations, the District should implement procedures to ensure that a proper audit trail exists for all entries booked and all reports generated by the new system.</p>	<p>Implemented.</p>