

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SAN DIEGO COUNTY**

**REPORT ON  
AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
INCLUDING REPORTS ON COMPLIANCE  
June 30, 2003**



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**AUDIT REPORT**

**June 30, 2003**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying basic financial statements of the Palomar Community College District, as of and for the year ended June 30, 2003 as listed in the table of contents. These 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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, 2003, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1B to the basic financial statements, the Palomar Community College District adopted provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, as of July 1, 2002. This results in a change in the formats and content of the basic financial statements.



Board of Trustees  
Palomar Community College District

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated December 4, 2003 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.

The accompanying financial and statistical 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Vicenti, Lloyd & Stutzman LLP*

VICENTI, LLOYD & STUTZMAN LLP

December 4, 2003



## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2003**

#### **Introduction**

The following discussion and analysis provides an overview of the financial position and activities of the Palomar Community College District (the "District") for the year ended June 30, 2003. This discussion has been prepared by college administration and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District was required to implement the reporting standards of Governmental Accounting Standards Board Statements (GASB) No. 34 and 35 during fiscal year 2002-03 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California Community College Districts, the District has adopted the BTA reporting model for these financial statements.

As required by the GASB reporting standards, the annual report consists of three basic financial statements that provide information on the District as a whole:

- The Statement of Net Assets
- The Statement of Revenues, Expenses and Changes in Net Assets
- The Statement of Cash Flows

#### **The College**

Palomar College is one of 108 colleges in the California Community Colleges system and eight in San Diego County. In addition to our main campus in San Marcos, we operate an educational center in Escondido, and seven smaller centers throughout north San Diego County, in Rancho Peñasquitos, Poway, Fallbrook, Ramona, Pauma Valley, Borrego Springs, and Camp Pendleton.

Palomar College serves more than 30,000 full-time and part-time students each fall and spring semester, while about 18,000 students attend during the summer semesters. About 25 percent of our students are enrolled full-time, while about 60 percent are enrolled part-time in credit classes, and 15 percent are enrolled in non-credit classes. About half of our students are aged 18 through 24, while the other half are 24 through 60+.

Palomar College offers more than 250 Associates Degree and certificate programs, as well as not-for-credit community development and personal enrichment classes for life-long learning. We have transfer agreements with the California State University and University of California systems, and our high-level coursework in transferable classes fully prepares our students for success at four-year colleges and universities.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2003**

(Continued)

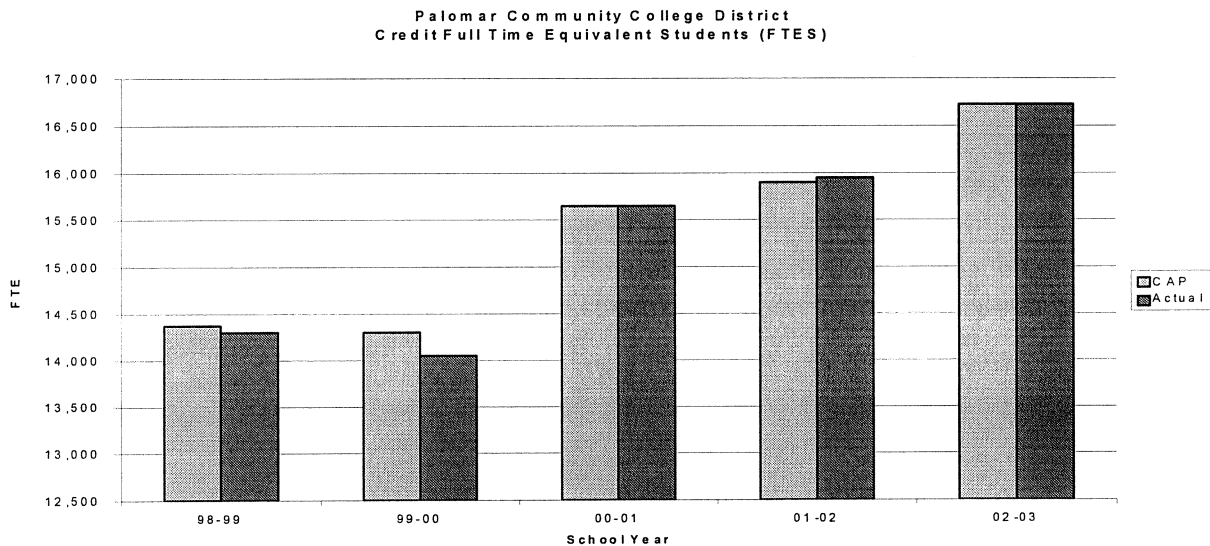
The California Community College system offers the most affordable education among community colleges throughout the United States. California residents pay an enrollment fee of only \$18 per credit. Out-of-state residents pay the enrollment fee plus tuition fees of \$139 per credit.

**Financial Highlights**

This section is to provide an overview of the District's financial activities. Since this is a year of transition to the new reporting format, only one year of information is presented in Management's Discussion and Analysis and in the accompanying audited financial statements. A comparative analysis will be provided in future years when prior year information is available.

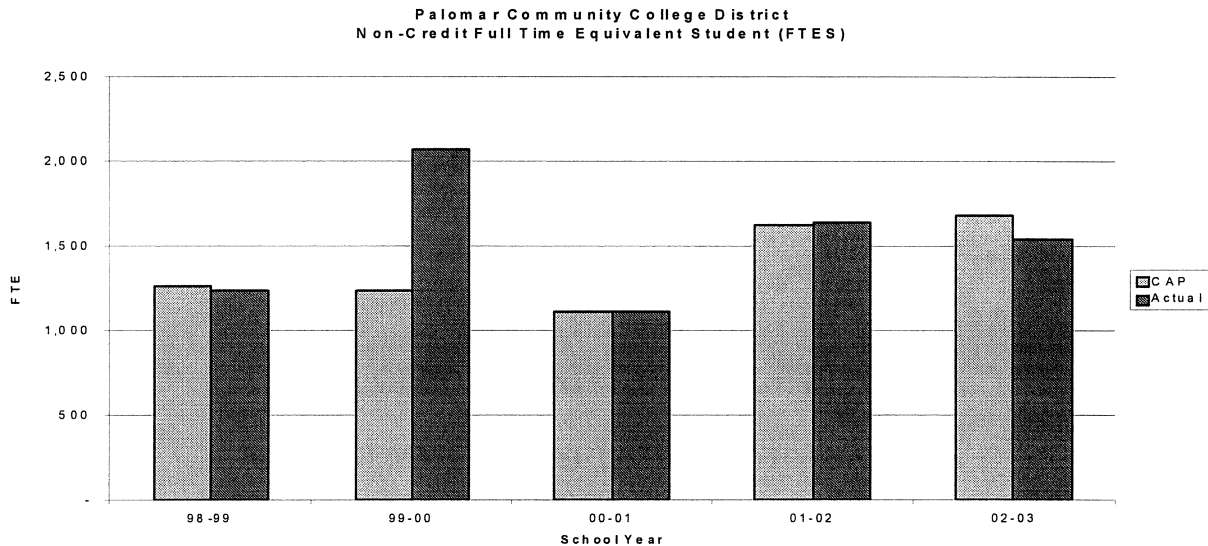
**Selected Highlights**

- Total full-time equivalent students (FTES) increased approximately 4.79% for credit and decreased 5.95% for non-credit courses for an overall increase of 3.79%. The District exceeded its capped funding for credit by 7.63 FTES but the non-credit was short of its cap by 134.56 FTES. Credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment.



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2003**

(Continued)



- The State proposed severe mid-year cuts to resolve a financial shortfall of over \$38 billion through fiscal year 2003-04. These cuts were mitigated however, and resulted in the following smaller program cuts:
  - Mandated Costs were cut for nearly \$100,000 with a promise to pay in the future
  - Basic Skills \$369,999
  - EOPS & CARE \$115,412
  - Instructional Equipment \$477,095
  - Partnership for Excellence \$485,000
  - Scheduled Maintenance \$441,494
- The problem of property tax shortfall continued. The amount of funding loss from County Tax Assessor estimates higher than actual receipts was \$1,285,000. System-wide for all community colleges totaled \$58 million.

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2003**

**(Continued)**

- The District's net assets exceeded liabilities by \$23.6 million
- Overall revenues were \$103.7 million, which exceed expenses by \$4.2 million
- The District started and continued various capital outlay projects expending \$6.7 million. The largest projects were the Student Union Center and the High Technology Building. The student center is expected to open in fall of 2003. The high technology building is expected to begin construction in summer of 2004.

#### **Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities and net assets of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current) and net assets (assets minus liabilities).

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

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

The Net Assets are divided into three major categories. The first category, invested in capital assets, provides the equity amount in property, plant and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets that are available to the District for any lawful purpose of the District.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2003**

**(Continued)**

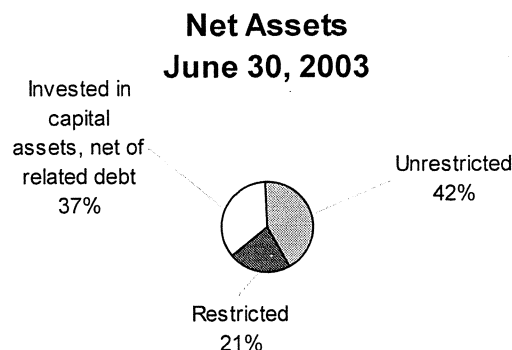
A Statement of Net Assets as of June 30, 2003 is summarized below:

	2003
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 38.5
Investments	0.7
Receivables	4.9
Prepaid expenses	0.1
Total current assets	<u>44.2</u>
Non-current assets	
Restricted cash and cash equivalents	0.9
Capital assets, net	28.0
Total non-current assets	<u>28.9</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 73.1</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 11.3
Deferred revenue	1.7
Compensated absences	1.9
Long-term liabilities	0.6
Total current liabilities	<u>15.5</u>
Non-current liabilities	
Long-term liabilities less current portion	9.3
Total non-current liabilities	<u>9.3</u>
<b>TOTAL LIABILITIES</b>	<u>24.8</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	18.1
Restricted	10.1
Unrestricted	20.1
<b>TOTAL NET ASSETS</b>	<u>48.3</u>
<b>TOTAL NET ASSETS AND LIABILITIES</b>	<u><u>\$ 73.1</u></u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2003**

**(Continued)**

- Approximately 95% of the cash balance is cash deposited in the San Diego County Treasury. The remaining 5% mainly consists of deposits with various financial institutions. The investments balance is made up of amounts held with fiscal agents for the Certificates of Participation and the Revenue Bonds.
- The majority of the accounts receivable balance is from Federal and State sources for grant and entitlement programs.
- Prior to 2001-02, Palomar College did not maintain records of the historical cost of capital assets. To comply with the new reporting requirement, the District contracted with an outside valuation company to obtain a complete listing of the historical cost and accumulated depreciation information for all capital assets within the capitalization policy established by the District. Depreciation expense of \$2,558,143 was recognized during 2002-03. The capital asset section of this discussion and analysis provides greater detail.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2003. Total accounts payable are \$9.9 million. Accrued liabilities of approximately \$1.3 million consist of amounts payable to or on behalf of employees for wages and benefits earned but not yet paid.
- The District currently has two debt issues outstanding that amount to \$9.4 million; \$6.4 million of this total is related to the Certificates of Participation and \$3.0 million is related to the revenue bonds. Long-term debt also includes capital leases of \$0.5 million. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2003**

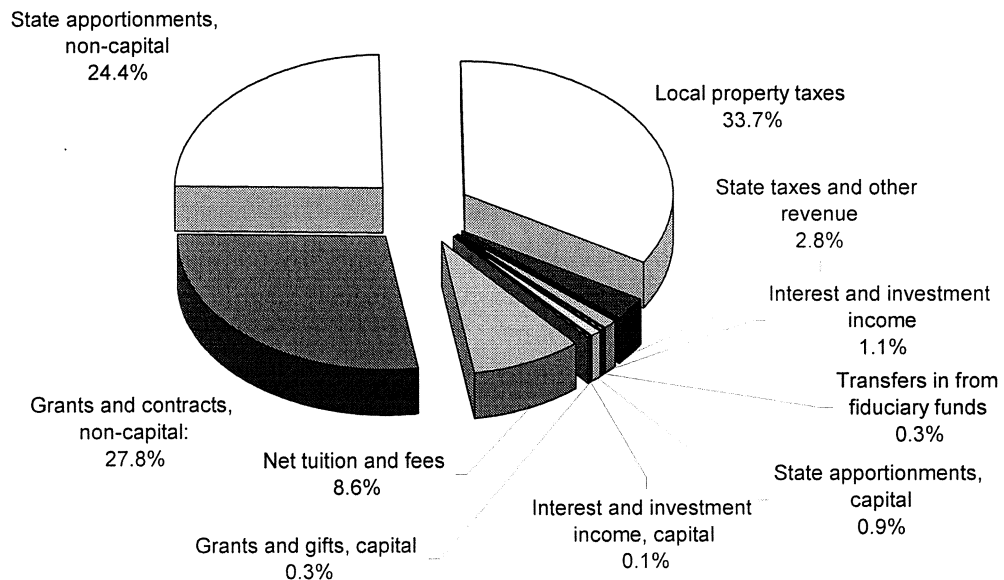
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**Statement of Revenues, Expenses and Changes in Net Assets**

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

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

Palomar Community College District  
Revenues  
For the Year Ended June 30, 2003



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2003**

**(Continued)**

The Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2003 is summarized below:

(In Millions of Dollars)

	2003
Operating Revenues	
Net tuition and fees	\$ 8.9
Grants and contracts, non-capital	28.9
Total operating revenues	<u>37.8</u>
Operating Expenses	
Salaries and benefits	74.0
Supplies and other expenses	18.2
Financial aid	4.1
Depreciation	2.6
Total operating expenses	<u>98.9</u>
Operating Loss	(61.1)
Non-operating revenues (expenses)	
State apportionments, non-capital	25.3
Local property taxes	35.0
State taxes and other revenues	2.9
Investment income, net	1.1
Transfers, net	0.3
Debt service	(0.5)
Total non-operating revenues (expenses)	<u>64.1</u>
Other revenues, expenses, gains or losses	
State apportionments, capital	0.9
Local property taxes, capital	0.1
Grants and gifts, capital	0.3
Total other revenues, expenses, gains or losses	<u>1.3</u>
Change in Net Assets	4.3
Net assets, beginning of year	44.0
Net assets, end of year	<u><u>\$ 48.3</u></u>



## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2003**

**(Continued)**

- Tuition and fees are generated by the resident, non-resident and foreign fees paid by students attending Palomar College, including fees such as health fees, parking fees, community services classes and other related fees. As noted previously in this discussion and analysis, our enrollment continues to grow which translates into increased tuition and fees.
- Non-capital grants and contracts are primarily those received from Federal and State sources and used in the instructional program.
- Personnel costs make up 75% of total operating expenses. The balance of operating expenses is for supplies, other services, capital outlay items below the capitalization threshold, insurance, utilities and depreciation expense.
- State apportionment is generated based on the workload measures reported to the State by the District. The District has experienced increases in the various workload measures.
- Local property taxes are received through the Auditor-Controller's Office for San Diego County. The amount received for property taxes is deducted from the total State general apportionment amount calculated by the State for the District. The housing market has remained strong in California in spite of the struggling economy. Home sales are turning over quickly which keeps property tax revenues steady and increasing.
- State apportionments, capital are the amount of capital outlay, scheduled maintenance, architectural barrier removal and hazardous substance funding received from the State through the Department of Finance. Capital outlay projects are typically funded 100% percent by the State while the other programs are funded at 50% to 90%.
- Functional expenses are presented on the following page. Governmental funds included are General Fund, Debt Service Fund, Child Development, Capital Outlay, COPs Capital Projects, Food Services, Energy Conservation, Escondido Tenancies, Retiree Benefits and Student Financial Aid. More detail on objects for fiscal year 2002-03 is included in Note 14 of the financial statements.

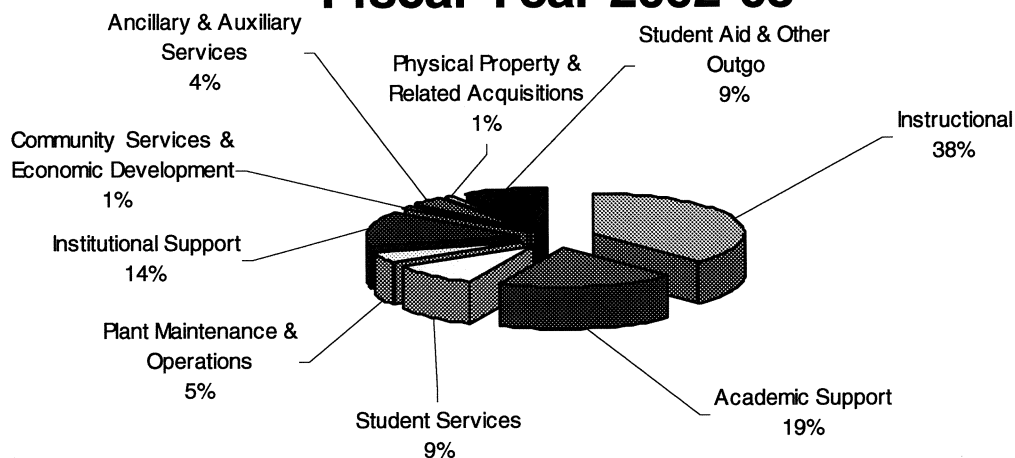
**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2003**

(Continued)

Expenditures by Function (Activity/Program)  
Fiscal Year 2001-02 to 2002-03 Comparison  
(Unaudited)

Activity	Code	2001-02 Total	Percent of Total	Percent Change	2002-03 Total	Percent of Total
Instructional	01-59	\$ 35,161,066	36.54%	8.44%	\$ 38,127,102	38.34%
Academic Support	60-62	\$ 17,638,269	18.33%	9.12%	\$ 19,246,779	19.36%
Student Services	63-64	\$ 8,977,908	9.33%	4.34%	\$ 9,367,476	9.42%
Plant Maintenance & Operations	65	\$ 4,599,614	4.78%	5.46%	\$ 4,850,755	4.88%
Institutional Support	66-67	\$ 15,656,008	16.27%	-13.64%	\$ 13,519,982	13.60%
Community Svc & Economic Dev	68	\$ 529,244	0.55%	12.11%	\$ 593,353	0.60%
Ancillary & Auxiliary Services	69-70	\$ 3,396,786	3.53%	6.54%	\$ 3,619,099	3.64%
Physical Prop & Related Acq	71	\$ 1,606,978	1.67%	-34.07%	\$ 1,059,436	1.07%
Student Aid & Other Outgo	72-73	\$ 8,660,361	9.00%	4.53%	\$ 9,052,620	9.10%
<b>Total</b>		<b>\$ 96,226,234</b>	<b>100.00%</b>	<b>3.34%</b>	<b>\$ 99,436,602</b>	<b>100.00%</b>

**Expenditures by Function/Activity**  
**Fiscal Year 2002-03**



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2003**

**(Continued)**

**Statement of Cash Flows**

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash provided by the operating activities of the District. The second part details cash received for non-operating, non-investing and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash provided by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

(in millions of dollars)

	<u>2003</u>
Cash provided by (used in)	
Operating activities	\$ (53.3)
Non-capital financing activities	65.9
Capital and related financing activities	(8.0)
Investing activities	<u>0.1</u>
Net increase in cash and cash equivalents	4.7
Cash balance, beginning of year	<u>34.7</u>
Cash balance, end of year	<u>\$ 39.4</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2003**

**(Continued)**

- Cash receipts from operating activities are from student tuition and from Federal, State and local grants. Uses of cash are payments to employees, vendors and students related to the instructional program.
- State apportionment received based on the workload measures generated by the District accounts for 42% of non-capital financing. Cash received from property taxes accounts for 53% of the cash generated in this section.
- The primary use included in capital and related financing activities is the purchase of capital assets (building improvements and equipment).
- Cash from investing activities is interest earned on cash in bank and cash invested through the San Diego County pool and other various investments.

**District's Fiduciary Responsibility**

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because we cannot use these assets to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2003**

**(Continued)**

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2003, the District had \$27.9 million invested in capital assets net of accumulated depreciation. Total capital assets of \$57.0 million consist of land, buildings and building improvements, construction in progress, vehicles, data processing equipment and other office equipment. Accumulated depreciation related to these assets is \$29.1 million. Significant capital asset additions of \$7.2 million occurred during 2002-03 and depreciation expense of approximately \$2.5 million was recorded for the fiscal year.

Capital additions primarily comprise replacement, renovation and new construction of facilities, as well as significant investments in equipment, including information technology. Current year additions were funded with capital appropriations and debt proceeds. The balance of additions was funded by gifts and unrestricted net assets which were designated for capital purposes.

Construction in progress of approximately \$7.3 million at June 30, 2003 consists mainly of a capital outlay project for construction of the student center and new high technology building. The high technology was in the planning phase during 2001-02. Therefore, significant expenditures were for the preparation of plans, engineering costs and the preparation of working drawings.

Note 5 to the financial statements provides additional information on capital assets.

A summary of capital assets, net of depreciation, is presented below:

	(in millions of dollars)	
		<u>2003</u>
Land		\$ 9.2
Site and site improvement		6.8
Equipment		4.6
Construction in progress		<u>7.3</u>
Net capital assets		<u><u>\$ 27.9</u></u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2003**

**(Continued)**

**Debt**

At June 30, 2003, the District had \$9.9 million in debt; \$0.5 million from capital lease obligations, \$6.4 million from certificates of participation and \$3.0 million from revenue bonds payable.

These financial statements do not include the actuarially determined liability for retiree benefits of \$34.6 million. Current GASB pronouncements do not allow inclusion of this liability in the financial statements. It is believed that future GASB pronouncements will address the financial statement presentation related to this liability. Note 12 to the financial statements provides additional information.

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

(In millions of dollars)		2003
		<u>          </u>
Long-term debt		
Capital leases	\$	0.5
COP payable		6.4
Revenue bonds payable		<u>3.0</u>
Total long-term debt		9.9
Less current portion		(0.6)
Long-term portion	\$	<u><u>9.3</u></u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2003**

**(Continued)**

**Economic Factors that May Affect the Future**

The economic position of the District is closely tied to that of the State of California. We are concerned for fiscal year 2003-04 and even more so for fiscal year 2004-05 and beyond due to the economy and budget for the State of California. In 2002-03 and anticipated for 2003-04 is the Governor's deferral of payments to Community Colleges and others in order to reduce the State's general fund Proposition 98 payment as required. There are also concerns about the State's ability to increase funding for the workload measures generated by the District. In addition to reductions in funding, all industries, including education, in California are experiencing increased costs for services and especially increased costs for employee benefits, insurance and utilities. Beginning in 2002-03, the District resumed making contributions to PERS for retiree benefits for classified employees. The average rate of contribution was 2.8% of classified payroll, approximately \$647,000. For 2003-04 the rate of contribution is 10.42% of classified payroll, approximately \$2,512,000. The estimated rate for 2004-05 is somewhere between 12.5 and 18%.

Other than the items discussed above, the District is not aware of any currently known facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Management will maintain a close watch over resources to maintain our ability to react to internal and external issues if and when they arise.

## **BASIC FINANCIAL STATEMENTS**



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF NET ASSETS**

**June 30, 2003**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 38,508,459
Investments	740,452
Accounts receivable, net	4,710,996
Due from fiduciary funds	153,371
Prepaid expenses	<u>92,246</u>
Total current assets	<u>44,205,524</u>

Non-current assets:

Restricted cash and cash equivalents	937,953
Capital assets, net of accumulated depreciation	<u>27,952,296</u>
Total non-current assets	<u>28,890,249</u>

**TOTAL ASSETS** \$ 73,095,773

**LIABILITIES**

Current liabilities:

Accounts payable	\$ 9,941,196
Accrued liabilities	1,321,938
Deferred revenue	1,746,970
Compensated absences	1,896,486
Capital leases - current portion	259,011
COP payable - current portion	265,000
Revenue bonds payable - current portion	<u>55,000</u>
Total current liabilities	<u>15,485,601</u>

Non-current liabilities:

Capital leases	171,329
COP payable	6,160,000
Revenue bonds payable	<u>2,950,000</u>
Total non-current liabilities	<u>9,281,329</u>

**TOTAL LIABILITIES** 24,766,930

**NET ASSETS**

Invested in capital assets, net of related debt	18,091,956
Restricted for:	
Capital projects	7,917,257
Debt service	734,917
Other special services	1,462,566
Unrestricted	<u>20,122,147</u>

**TOTAL NET ASSETS** 48,328,843

**TOTAL LIABILITIES AND NET ASSETS** \$ 73,095,773

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For the Fiscal Year Ended June 30, 2003**

**OPERATING REVENUES**

Tuition and fees (gross)	\$ 9,692,350
Less: scholarship discounts & allowances	<u>(789,387)</u>
Net tuition and fees	<u>8,902,963</u>
Grants and contracts, non-capital:	
Federal	6,328,284
State	13,781,047
Local	<u>8,797,601</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>37,809,895</b></u>

**OPERATING EXPENSES**

Salaries	59,799,147
Employee benefits	14,228,025
Supplies, materials, and other operating expenses and services	17,071,888
Financial aid	4,066,871
Utilities	1,146,229
Depreciation	<u>2,558,143</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>98,870,303</b></u>

<b>OPERATING LOSS</b>	<u><b>(61,060,408)</b></u>
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**NON-OPERATING REVENUES (EXPENSES)**

State apportionments, non-capital	25,286,244
Local property taxes	35,037,336
State taxes and other revenue	2,870,332
Interest and investment income	1,114,487
Transfers in from fiduciary funds	300,000
Transfers out to fiduciary funds	(35,000)
Debt service	<u>(531,299)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u><b>64,042,100</b></u>

<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<u><b>2,981,692</b></u>
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**OTHER REVENUES, EXPENSES, GAINS AND LOSSES**

State apportionments, capital	893,486
Interest and investment income, capital	72,719
Grants and gifts, capital	<u>300,000</u>
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<u><b>1,266,205</b></u>

<b>INCREASE IN NET ASSETS</b>	<u><b>4,247,897</b></u>
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<b>NET ASSETS - BEGINNING OF YEAR</b>	<u><b>44,080,946</b></u>
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<b>NET ASSETS - END OF YEAR</b>	<u><u><b>\$ 48,328,843</b></u></u>
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See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2003

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$ 6,981,105
Federal grants and contracts	6,272,670
State grants and contracts	13,417,433
Local grants and contracts	6,647,940
Sales	140,481
Payments to suppliers	(11,911,598)
Payments to/on-behalf of employees	(70,079,423)
Payments to/on-behalf of students	(4,052,129)
Payments for other uses	(551,146)
Net amounts due from fiduciary funds	<u>(183,767)</u>
Net cash used by operating activities	<u>(53,318,434)</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

State apportionments and receipts	27,370,529
Property taxes	35,113,924
Grants and gifts for other than capital purposes	<u>3,465,117</u>
Net cash provided by non-capital financing activities	<u>65,949,570</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State apportionment for capital purposes	1,152,193
Local grants for capital purposes	300,000
Interest on capital investments	184,152
Purchase of capital assets	(8,024,278)
Principal paid on capital debt	(1,158,339)
Interest paid on capital debt	<u>(488,400)</u>
Net cash used by capital and related financing activities	<u>(8,034,672)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments	854,280
Purchase of investments	(4,374,092)
Sale of investments	<u>3,633,640</u>
Net cash provided by investing activities	<u>113,828</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 4,710,292

**CASH BALANCE - BEGINNING OF YEAR** 34,736,120

**CASH BALANCE - END OF YEAR** \$ 39,446,412

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2003

Reconciliation of Operating Loss to  
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (61,060,408)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	2,558,143
Changes in assets and liabilities:	
Receivables, net	(313,351)
Due to fiduciary funds (net)	(102,239)
Prepaid expenses	356,289
Accounts payable	5,891,641
Deferred revenue	(987,119)
Compensated absences	<u>338,610</u>
Net cash used by operating activities	\$ <u>(53,318,434)</u>

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2003**

**ASSETS**

Cash in county treasury	\$ 1,262,880
Cash on hand and in banks	88,159
Cash collections awaiting deposit	277
Accounts receivable:	
Miscellaneous	<u>25,863</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,377,179</u></b>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 6,974
Due to governmental funds	153,371
Deferred revenue	33,326
Amounts held for others	<u>67,524</u>
<b>TOTAL LIABILITIES</b>	<b><u>261,195</u></b>

**NET ASSETS**

Undesignated	<u>1,115,984</u>
<b>TOTAL NET ASSETS</b>	<b><u>1,115,984</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>1,377,179</u></b>

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**For the Fiscal Year Ended June 30, 2003**

<b>ADDITIONS</b>	
Interest and investment income	\$ 39,588
Other local revenues	<u>257,216</u>
<b>TOTAL ADDITIONS</b>	<u>296,804</u>
<b>DEDUCTIONS</b>	
Classified salaries	3,416
Supplies and materials	25,483
Other operating expenses & services	118,804
Capital outlay	4,535
Other transfers out	<u>1,430</u>
<b>TOTAL DEDUCTIONS</b>	<u>153,668</u>
Excess of additions over deductions	<u>143,136</u>
<b>OTHER SOURCES (USES)</b>	
Transfers in from governmental funds	35,000
Transfers out to governmental funds	<u>(300,000)</u>
<b>TOTAL OTHER SOURCES (USES)</b>	<u>(265,000)</u>
<b>CHANGE IN NET ASSETS</b>	(121,864)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,237,848</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,115,984</u>

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. 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 Governmental Accounting Standards Board (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:

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, 2003**

**(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**B. FINANCIAL STATEMENT PRESENTATION**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments and including Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, issued in June and November 1999 and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund and the Retiree Benefits Fund, are excluded from the basic financial statements.

**C. BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

For internal accounting purposes, 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.



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**C. BASIS OF ACCOUNTING (continued)**

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.

By State law, the District's Governing Board must approve a budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

In accordance with GASB Statement No. 20, the District follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superceded or rescinded. The District also applies all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB.

**1. Cash and Cash Equivalents**

Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31. The District's cash and cash equivalents, are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**C. BASIS OF ACCOUNTING (continued)**

2. Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

3. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants and contracts.

4. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings, renovations to building and infrastructure with a unit cost of \$100,000 or more, and land and site improvements, with a unit cost of \$50,000 or more, that significantly increase the value or extend the useful life of the structure, are capitalized. Interest incurred during construction is not capitalized.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**C. BASIS OF ACCOUNTING (continued)**

4. Capital Assets (continued)

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 50 years for buildings and certain major building and site improvements, 15 years for modular buildings and land improvements, 5 to 8 years for equipment and 3 years for technology.

5. Accounts Payable

Accounts payable consists of amounts due to vendors and accrued interest.

6. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable.

7. Deferred Revenue

Cash received for Federal and State special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**C. BASIS OF ACCOUNTING (continued)**

**8. Compensated Absences**

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as liabilities of the District as compensated absences in the Statement of Net Assets.

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.

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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**C. BASIS OF ACCOUNTING (continued)**

9. Net Assets

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – non-expendable: Non-expendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District had no restricted net assets – non-expendable.

Unrestricted net assets: Unrestricted net assets represent resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board, as designated, to meet current expenses for specific future purposes.

10. State Apportionments

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 2004 will be recorded in the year computed by the State.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**C. BASIS OF ACCOUNTING (continued)**

11. Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 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 revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has not been recognized in the General Fund for property taxes due to the fact that any receivable is offset by a payable to the State for revenue limit purposes. Property taxes for debt service purposes have been accrued in the basic financial statements.

12. On-Behalf Payments

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 and Public Employees Retirement Systems on behalf of all Community Colleges 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 \$1,422,000 for STRS and \$18,000 for PERS.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

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

**C. BASIS OF ACCOUNTING: (continued)**

13. Classification of Revenues

The District has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and Federal and most State and local grants and contracts.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as non-operating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting, and GASB No. 33, such as investment income.

14. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

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

**C. BASIS OF ACCOUNTING: (continued)**

15. Accounting Changes

As a result of the adoption of GASB Statements No. 34 and No. 35, the District was also required to make certain changes in accounting principles, specifically the adoption of depreciation on capital assets for all funds and the recording of long-term debt. Net assets at July 1, 2002 were increased by \$10,985,056 for the cumulative effect of these changes on years prior to fiscal year ended June 30, 2003.

16. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Some of the more common estimates would relate to year end accruals for receivables and payables, and useful lives of capital assets. Actual results may differ from those estimates.

**NOTE 2 – DEPOSITS AND INVESTMENTS:**

**A. Deposits**

Cash and cash equivalents at June 30, 2003, consisted of the following:

	Governmental Funds	Fiduciary Funds	Total
Deposits:			
Cash on hand and in banks	\$ 1,774,115	\$ 88,159	\$ 1,862,274
Cash in revolving fund	25,000		25,000
Cash collections awaiting deposit	100,113	277	100,390
Pooled funds (not required to be categorized):			
Cash in County Treasury	37,547,184	1,262,880	38,810,064



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 2 - 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. In addition, the California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging Government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. All cash held by the financial institutions is insured or collateralized as indicated below.

In accordance with the Budget and Accounting Manual, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2003, as provided by the pool sponsor, was \$38,949,780. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Deposits at June 30, 2003, held on behalf of 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</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Cash on hand and in banks	\$ 78,923	\$2,425,344	\$ 0	\$2,504,267	\$1,862,274
Cash in revolving fund	21,077			21,077	25,000
Cash collections awaiting deposit				0	100,390
Total	<u>\$100,000</u>	<u>\$2,425,344</u>	<u>\$ 0</u>	<u>\$2,525,344</u>	<u>\$1,987,664</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, 2003**

**(Continued)**

**NOTE 2 - 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 2002-03 fiscal year, nor were they involved in any reverse repurchase agreements during 2002-03.

Investments at June 30, 2003, held on behalf of the Palomar Community College District, are presented below, categorized separately to give an indication of the level of custodial risk associated with each investment:

	<u>Category *</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Federated U.S. Treasury	\$	\$	\$ 9,870	\$ 9,870	\$ 9,870
Investment Agreement	—	—	<u>730,582</u>	<u>730,582</u>	<u>730,582</u>
Total Investments	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 740,452</u>	<u>\$ 740,452</u>	<u>\$ 740,452</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.

**NOTE 3 - ACCOUNTS RECEIVABLE:**

The accounts receivable balance as of June 30, 2003 consists of the following:

Federal and State	\$3,061,092
Miscellaneous	1,649,904

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 4 - INTERFUND TRANSACTIONS:**

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when the interfund transfer is transacted after the close of the fiscal year. Interfund activity has been eliminated in the basic financial statements.

**NOTE 5 - CAPITAL ASSETS:**

The following provides a summary of changes in capital assets for the year ended June 30, 2003:

	<u>Balance</u> <u>July 1, 2002*</u>	<u>Net Change in</u> <u>Capital Assets</u>	<u>Balance</u> <u>June 30, 2003</u>
<u>Capital Assets</u>			
Land and improvements	\$ 15,305,504	\$ 317,291	\$15,622,795
Site and site improvements	18,650,711	412,473	19,063,184
Equipment	15,058,632	(20,901)	15,037,731
Construction in progress	<u>800,915</u>	<u>6,514,500</u>	<u>7,315,415</u>
Total cost	<u>49,815,762</u>	<u>7,223,363</u>	<u>57,039,125</u>
<u>Accumulated Depreciation</u>			
Land improvements	5,492,477	954,758	6,447,235
Site and site improvements	11,855,472	389,822	12,245,294
Equipment	<u>9,180,737</u>	<u>1,213,563</u>	<u>10,394,300</u>
Total accumulated depreciation	<u>26,528,686</u>	<u>2,558,143</u>	<u>29,086,829</u>
Net capital assets	<u>\$23,287,076</u>	<u>\$ 4,665,220</u>	<u>\$27,952,296</u>

\*The balance at July 1, 2002 has been restated to reflect changes in capitalization and reporting policies for implementation of GASB 34/35.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 6 – TAX REVENUE ANTICIPATION NOTES (TRANS):**

The District issued \$2,500,000 of Tax Revenue Anticipation Notes dated July 1, 2002 through the California Community College Financing Authority. The notes matured on June 30, 2003 and yielded 1.68% 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 \$1,287,397 be deposited in both January and April, 2003 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, 2003. Therefore, a liability is not reported on these financial statements.

**NOTE 7 - LEASES:**

**A. Capital Leases**

The District leases equipment valued at approximately \$4,560,000 under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<b><u>Year Ended</u></b> <b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2003-04	\$ 259,011	\$ 22,537	\$ 281,548
2004-05	159,323	15,660	174,983
2005-06	<u>12,006</u>	<u>1,224</u>	<u>13,230</u>
Total	\$ <u>430,340</u>	\$ <u>39,421</u>	\$ <u>469,761</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, 2003**

**(Continued)**

**NOTE 7 - LEASES: (continued)**

**B. Operating Leases**

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

<b><u>Fiscal Year</u></b>	<b><u>Lease Payment</u></b>
2003-04	\$ 263,513
2004-05	212,409
2005-06	<u>176,836</u>
Total	\$ <u>652,758</u>

Current year expenditures for operating leases is approximately \$286,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

**NOTE 8 - 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 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)**

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.

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, 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
October 1, 2006	300,000	124,331	424,331
April 1, 2007		118,556	118,556
October 1, 2007	310,000	118,556	428,556
April 1, 2008		112,356	112,356
2009-2013	1,760,000	947,614	2,707,614
2014-2018	2,200,000	501,406	2,701,406
2019-2020	<u>1,025,000</u>	<u>47,984</u>	<u>1,072,984</u>
Total	\$ <u>6,425,000</u>	\$ <u>2,768,021</u>	\$ <u>9,193,021</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% to 6.50%. These certificates were refinanced in January 1999 and have been in-substance defeased. At June 30, 2003, \$5,655,000 of the 1994 Certificates of Participation were outstanding; approximately \$5,936,000 was in the escrow account at June 30, 2003 to pay off this debt.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 9 - REVENUE BONDS:**

The District issued Revenue Bonds on July 18, 2001 in the amount of \$3,095,000 to be used to remodel and expand the Student Center. Interest rates on the bonds range from 5.0% to 5.625% for the length of the issuance. The bonds will mature on April 1, 2031. The source of revenue to pay off the debt will come from the Student Center Fee Fund. Future principal and interest payments are as follows:

<u>Lease Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
October 1, 2003	\$	\$ 74,323	\$ 74,323
April 1, 2004	55,000	74,323	129,323
October 1, 2004		73,292	73,292
April 1, 2005	60,000	73,292	133,292
October 1, 2005		72,167	72,167
April 1, 2006	60,000	72,167	132,167
October 1, 2006		71,042	71,042
April 1, 2007	60,000	71,042	131,042
October 1, 2007		69,842	69,842
April 1, 2008	65,000	69,842	134,842
2009-2013	365,000	657,205	1,022,205
2014-2018	450,000	568,255	1,018,255
2019-2023	580,000	443,500	1,023,500
2024-2028	755,000	266,518	1,021,518
2029-2031	<u>555,000</u>	<u>57,913</u>	<u>612,913</u>
Total	\$ <u>3,005,000</u>	\$ <u>2,714,723</u>	\$ <u>5,719,723</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 10 - LONG-TERM DEBT:**

A schedule of changes in long-term debt for the year ended June 30, 2003 is shown below:

	<u>Balance July 1, 2002*</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>
Capital leases	\$ 1,278,679	\$	\$ 848,339	\$ 430,340
Certificates of participation (COP)	6,680,000		255,000	6,425,000
Revenue bonds	<u>3,060,000</u>	<u></u>	<u>55,000</u>	<u>3,005,000</u>
Totals	<u>\$11,018,679</u>	<u>\$ 0</u>	<u>\$ 1,158,339</u>	<u>\$ 9,860,340</u>

\*Long-term debt related to retiree benefits is not included in the statement of net assets and therefore the balance at July 1, 2002 has been revised. Additional information is reflected in Note 12.

**NOTE 11 - 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, 2003**

**(Continued)**

**NOTE 11 - 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 2002-03 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 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. The average required employer contribution for fiscal year 2002-03 was 2.8% of annual payroll. 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, 2003**

**(Continued)**

**NOTE 11 - 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 June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2001	\$2,041,285	100%	\$ 0	100%
2002	2,240,781	100%	0	100%
2003	2,580,601	100%	566,774	100%

**NOTE 12 - RETIREE BENEFITS:**

The District currently provides retiree dental, 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, medical benefits are provided only to age 65 and dental benefits are provided for life. The estimated total future liability, based upon an actuarial study dated May 30, 2002 is approximately \$34.6 million; this actuarial liability is as of December 1, 2001 and is not reflected in these financial statements as long-term debt awaiting additional guidance from the Governmental Accounting Standards Board. In 2002-03, the District paid approximately \$1,768,192 for retiree benefits. The District has budgeted \$2,248,121 for these benefits in 2003-04.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 13 - 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.

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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 13 - JOINT POWERS AGREEMENT: (continued)**

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

	SDCRM-JPA 6/30/2003 <u>(Audited)</u>	SDCSFBC 6/30/2003 <u>(Audited)</u>	SWACC 6/30/2003 <u>(Audited)</u>	SELF 6/30/2003 <u>(Audited)</u>
Total assets	\$25,524,336	\$12,200,245	\$19,230,743	\$112,124,000
Total liabilities	<u>9,275,948</u>	<u>4,981,297</u>	<u>9,157,011</u>	<u>64,484,000</u>
Retained earnings	<u>\$16,248,388</u>	<u>\$ 7,218,948</u>	<u>\$10,073,732</u>	<u>\$ 47,640,000</u>
Total revenues	\$33,197,829	\$41,335,915	\$ 9,046,550	\$ 25,829,000
Total expenditures	<u>32,544,711</u>	<u>41,218,081</u>	<u>9,651,057</u>	<u>11,023,000</u>
Net increase/(decrease) in retained earnings	<u>\$ 653,118</u>	<u>\$ 117,834</u>	<u>\$ (604,507)</u>	<u>\$ 14,806,000</u>

**NOTE 14 - FUNCTIONAL EXPENSE:**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Supplies, Materials, Other Expenses &amp; Services &amp; Other Outgo</u>	<u>Financial Aid</u>	<u>Depreciation</u>	<u>Total</u>
Instructional Activities	\$30,495,826	\$ 6,136,098	\$ 1,495,178	\$	\$	\$38,127,102
Academic Support	11,952,430	2,805,309	4,489,040			19,246,779
Student Services	6,595,577	1,373,847	1,398,052			9,367,476
Operation & Maintenance of Plant	2,183,402	594,371	2,072,982			4,850,755
Institutional Support Services	6,106,509	2,751,579	4,661,894			13,519,982
Community Services & Economic Development	219,338	28,655	345,360			593,353
Ancillary Services & Auxiliary Operations	2,231,213	537,049	850,837			3,619,099
Physical Property & Related Acquisitions	2,625	146	1,056,665			1,059,436
Student Aid				4,066,871		4,066,871
Transfers & Other Outgo	12,227	471	2,414,408			2,427,606
Depreciation Expense					<u>2,558,143</u>	<u>2,558,143</u>
Total	<u>\$59,799,147</u>	<u>\$14,228,025</u>	<u>\$18,784,416</u>	<u>\$ 4,066,871</u>	<u>\$ 2,558,143</u>	<u>\$99,436,602</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 15 - COMMITMENTS AND CONTINGENCIES:**

**A. State and Federal Allowances, Awards and Grants**

The District has received State and Federal funds for specific purposes, including reimbursement of mandated costs, 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. Ground Lease and Lease-Back Purchase Agreement**

The District entered into a ground lease and lease back purchase of 1.8 acres for a parking lot at the Escondido Center in December of 1991 with the Community Development Commission of the City of Escondido (CDC). The debt service of the structure totaled \$4,480,000 that is to be paid from a tax sharing agreement with the CDC. The tax sharing agreement provides direct funding to the CDC from the County from property tax for servicing the debt that was issued in their name. The outstanding debt as of June 30, 2003, including principal and interest, is \$3,425,748.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**(Continued)**

**NOTE 16 - SUBSEQUENT EVENT:**

**A. Tax Revenue Anticipation Notes**

The District issued \$1,185,000 of Tax Revenue Anticipation Notes dated July 1, 2003 through the California Community College Financing Authority. The notes mature on June 30, 2004 and yield 0.80% 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 are that \$604,350 be deposited in January and April respectively to cover principal and interest payments.

**B. GASB Exposure Draft**

The Governmental Accounting Standards Board (GASB) has recently issued an exposure draft outlining new accounting standards for governmental agencies regarding other post-employment benefits. The statement is expected to be finalized sometime this year and would be effective for phase two GASB Statement No. 34 implementers in fiscal year 2007-08. The statement will require governmental agencies to record the actuarially determined cost based on the benefits expected to be earned by employees in the future, as well as those benefits the employees have already earned. A liability will be recorded for the difference between the annual required contribution and the amount expensed on the pay-as-you-go basis. The statement will also require that an actuarial valuation be performed every two years for a plan with more than 200 members and every three years for plans with fewer than 200 members.

## **SUPPLEMENTARY INFORMATION**

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **HISTORY AND ORGANIZATION**

**June 30, 2003**

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>
Darrell L. McMullen, M.B.A.	President	2004
Ralph G. Jensen, B.A.	Vice President	2004
Michele T. Nelson, Ph.D.	Secretary	2006
Mark R. Evilsizer, M.A.	Trustee	2006
Nancy C. Chadwick, M.S.W., M.P.A.	Trustee	2004
Leo Melina	Student Trustee	2003

### **DISTRICT EXECUTIVE OFFICERS**

Sherrill L. Amador, Ed.D.	Superintendent/President
Diane Lutz	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
Lee Kerkhove	Interim Dean, Media, Business and Community Services
Wilma Owens	Dean, Career and Technical Education
Katheryn Garlow	Interim Dean, Arts and Languages
Michael Rourke	Dean, Mathematics and the Natural and Health Sciences
Mark Vernoy	Dean, Human Arts and Sciences
Dale Wallenius	Chief Advancement Officer and Vice President to the Foundation
Lynda Halttunen	Dean, Counseling and Matriculation
Lise Telson	Dean, Student Support Programs



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal year Ended June 30, 2003**

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number *</u>	<u>Total Program Expenditures and Encumbrances</u>
<b>U.S. Department of Education</b>			
SEOG	84.007	N/A	\$ 215,100
SEOG Administrative allowance	84.007	N/A	9,527
Pell Grant- Administrative allowance	84.063	N/A	22,207
Pell Grant	84.063	N/A	2,917,066
Higher Education Act:			
Federal Workstudy	84.033	N/A	146,370
Veterans Education	64.112	N/A	4,129
Educational Opportunity Centers	84.033	N/A	110,398
TRIO Student Support Services	84.042A	N/A	290,335
TRIO Supplemental	84.042A	N/A	13,100
TRIO Upward Bound	84.047A	N/A	217,715
Gear-Up	84.334A	N/A	1,120,054
Vocational Technology Education Act (VTEA):			
Leadership IIC	84.048	13920	276,637
ROP	84.048	N/A	101,482
Tech Prep	84.243	13929	82,385
Direct Loans	N/A	N/A	520,581
<b>U.S. Department of Justice</b>			
Dept of Justice/ COPS	16.710	N/A	144,444
<b>U.S. Department of Health and Human Services</b>			
TANF	93.558	N/A	66,200
Child Development Training Consortium	93.575	13967	22,109
<b>U.S. Department of Agriculture</b>			
Child Nutrition	10.555	03755	48,445
<b>Total Federal Program Expenditures</b>			<b>\$ 6,328,284</b>

N/A – pass through number either not available 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, 2003**

Program Name	Program Entitlements			Program Revenues				Total Program Expenditures and Encumbrances
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Income	Total	
<b>State Categorical Aid Programs:</b>								
Associate Nursing Degree Grant	\$ 50,919	\$ -	\$ 50,919	\$ 50,919	\$ -	\$ -	\$ 50,919	\$ 50,919
Apprenticeship Administration	907,809		907,809	907,809			907,809	907,809
Basic Skills	191,910		191,910	191,910			191,910	191,910
BFAP	13,951		13,951	13,951			13,951	13,951
Cal Works	151,383		151,383	151,383		55,753	95,630	95,630
Campus Child Care	159,636		159,636	159,636			159,636	159,636
CCC Satellite Network	1,785,748		1,785,748		1,785,748		1,785,748	1,785,748
Disabled Student Programs and Services	763,866	35,049	798,915	798,915		11,046	787,869	787,869
Education Network Grant	4,832		4,832	4,832		485	4,347	4,347
Extended Opportunity Programs & Services	1,089,183		1,089,183	1,089,183		20,745	1,068,438	1,068,438
Growth	2,700,014		2,700,014	2,700,014			2,700,014	2,700,014
Instructional Equipment/SB735	233,072		233,072	175,954		9	175,945	175,945
Instructional Equipment Outgoing	275,267		275,267	275,267		4,933	270,334	270,334
Lottery Prop 20 - Instructional Materials	232,544		232,544	24,415	175,379		199,794	199,794
Matriculation	946,377		946,377	946,377		67,150	879,227	879,227
Part-Time Faculty	940,091		940,091	940,091			940,091	940,091
Partnership for Excellence	4,182,808		4,182,808	4,182,808			4,182,808	4,182,808
Staff Development	26,550		26,550	26,550			26,550	26,550
Staff Diversity	22,052		22,052	22,052			22,052	22,052
State Energy Conservation Fund		229,364	229,364	229,364			229,364	229,364
Telecommunications and Technology	267,646		267,646	267,646		10,252	257,394	257,394
TTIP E-Conferencing	1,856,419		1,856,419	1,208,013	648,406		1,856,419	1,856,419
<b>Total State Program Expenditures</b>	<b>\$ 16,802,077</b>	<b>\$ 264,413</b>	<b>\$ 17,066,490</b>	<b>\$ 14,367,089</b>	<b>\$ 2,609,533</b>	<b>\$ 170,373</b>	<b>\$ 16,806,249</b>	<b>\$ 16,806,249</b>

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, 2003**

Categories

A.	Credit Full-Time Equivalent Students (FTES)	
1.	Weekly census	13,512.50
2.	Daily census	1,050.31
3.	Actual hour of attendance	416.89
4.	Independent study/work experience	369.27
5.	Summer intersession	<u>1,453.19</u>
	Total	<u>16,802.16</u>
B.	Non-Credit FTES	
1.	Actual hour of attendance	1,320.48
2.	Summer intersessions	<u>372.92</u>
	Total	<u>1,693.40</u>
C.	Basic Skills Courses	
1.	Credit	748.02
2.	Non-credit	<u>804.67</u>
	Total	<u>1,552.69</u>
	Gross Square Footage	
	Existing Facilities	<u>635,018</u>
	FTES in Leased Facilities	<u>1,322.83</u>

See the accompanying notes to the supplementary information.

# PALOMAR COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2003

	Debt Service Fund	COPs Capital Projects Fund	Cafeteria Fund
June 30, 2003 Annual Financial and Budget Report Fund Balance (CCFS-311)	\$ 622,845	\$ -	\$ -
Adjustments and Reclassifications:			
Under-Statement of Beginning Balance	2,952,812		72,957
Under-Statement of Revenues	211,744		
Under-Statement of Expenses	(3,052,484)		
Under-Statement of COPs activity		5,535	
Net Adjustments and Reclassifications	<u>112,072</u>	<u>5,535</u>	<u>72,957</u>
June 30, 2003 Audited Fund Balance	<u>\$ 734,917</u>	<u>\$ 5,535</u>	<u>\$ 72,957</u>

### Notes:

Additional entries were made to comply with the GASB 34/35 reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

The Chancellor's Office does not require the Certificates of Participation to be recorded on the books of the District, therefore the COPs Capital Projects Fund is not reported on the CCFS-311.

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,

	<b>(Budget) 2004</b>		<b>2003</b>		<b>2002</b>		<b>2001</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b><u>GENERAL FUND:</u></b>								
<b><u>Revenue</u></b>								
Federal	\$ 3,602,233	3.39	\$ 2,560,776	2.76	\$ 2,209,095	2.44	\$ 1,700,489	2.05
State	36,430,187	34.33	40,751,461	43.96	45,099,366	49.92	35,411,782	42.66
County and local	57,675,962	54.36	49,619,613	53.53	47,199,935	52.24	44,936,631	54.13
Total Revenue	97,708,382	92.08	92,931,850	100.25	94,508,396	104.60	82,048,902	98.84
<b><u>Expenditures</u></b>								
Academic salaries	37,266,060	35.12	36,714,332	39.60	36,252,120	40.12	32,578,581	39.25
Classified salaries	24,105,443	22.72	22,886,108	24.69	22,081,726	24.44	20,062,304	24.17
Employee benefits	18,350,854	17.30	14,124,853	15.24	12,059,986	13.35	10,769,316	12.97
Supplies and materials	2,060,699	1.94	1,777,935	1.92	1,946,119	2.15	2,026,963	2.44
Other operating expenses & services	14,558,161	13.72	11,802,448	12.73	11,635,116	12.88	11,315,538	13.63
Capital outlay	1,535,922	1.45	2,837,517	3.06	3,603,491	3.99	5,238,834	6.31
Other uses (net)	8,228,316	7.75	2,554,436	2.76	2,770,895	3.07	1,022,565	1.23
Total Expenditures	106,105,455	100.00	92,697,629	100.00	90,349,453	100.00	83,014,101	100.00
Change in fund balance	\$ (8,397,073)	(7.92)	\$ 234,221	0.25	\$ 4,158,943	4.60	\$ (965,199)	(1.16)
Adjustment for restatement	\$ -	-	\$ -	-	\$ (609,505)	(0.67)	\$ 584,026	0.70
Ending fund balance	\$ 6,104,640	5.75	\$ 14,501,713	15.64	\$ 14,267,492	15.79	\$ 10,718,054	12.91
Full-Time Equivalent Students	18,495		18,495		18,753		17,098	
Total long-term debt	\$ 9,281,329		\$ 9,860,340		\$ 46,037,913		\$ 36,864,465	

**IMPORTANT NOTES:**

For 2001, 2002 and 2003 all percentages are of total expenditures excluding contingencies; for 2004, the expenditures include an amount budgeted for contingencies.

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.

Total long-term debt for 2003 and Budget (2004) excludes the actuarially determined liability for retiree benefits as explained in Note 12.

See the accompanying notes to the supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION**

**For the Fiscal Year Ended June 30, 2003**

**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, 2003 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 with Audited Fund Balances**

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Form CCFS-311.

**D. Schedule of General Fund 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION**

**For the Fiscal Year Ended June 30, 2003**

**(Continued)**

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:**

Excesses of expenditures over appropriations, by major object accounts, occurred in the following funds:

Food Services Fund:

Supplies and materials	\$ 556
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Debt Service Fund:

Debt service	401,441
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**Chairman**

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**Partners**

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COLLEEN K. TAYLOR

DEAN WEST

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

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

We have audited the basic financial statements of the Palomar Community College District as of and for the year ended June 30, 2003, and have issued our report thereon dated December 4, 2003. We conducted our audit in accordance with auditing standards generally accepted by 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 basic 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 related to the basic 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 basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial





**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)

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 basic 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 none of the reportable conditions described above are material weaknesses.

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

*Vicenti, Lloyd & Stutzman LLP*

VICENTI, LLOYD & STUTZMAN LLP

December 4, 2003



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

**Chairman**  
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DEAN WEST

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

Compliance

We have audited the compliance of the Palomar Community College 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, 2003. 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, the 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, 2003.

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 California Department of Finance, the State Chancellor's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vicenti, Lloyd & Stutzman LLP*

VICENTI, LLOYD & STUTZMAN LLP

December 4, 2003



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## REPORT ON STATE COMPLIANCE

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

We have audited the basic financial statements of Palomar Community College District, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 4, 2003.

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 California Department of Finance's 2003 transmittal of audit requirements for community colleges. The objective of the examination of compliance applicable to the 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 has the appropriate documentation to support the FTES, if any, that are claimed for instructional service agreements/contracts.
- 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 acted to ensure that the residency of each student is properly classified and that only the attendance of California resident students is claimed for apportionment purposes.



## **REPORT ON STATE COMPLIANCE**

### **(Continued)**

- 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 District has complied with all requirements necessary to claim FTES for the attendance of concurrently enrolled K-12 pupils.
- 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'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.
- 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 Gann Limit Calculation was properly supported by adequate documentation and approved by the governing board.
- 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 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 scheduled maintenance funds. The amount expended for plant maintenance and operations during the base year of 1995-96 was \$3,447,456.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.

## REPORT ON STATE COMPLIANCE

(Continued)

In our opinion, except for findings 03-1, 03-2 and 03-3 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 03-1, 03-2 and 03-3 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 Basic Financial Statements.

This report is intended solely for the information and use of the Board, management, the California 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*

VICENTI, LLOYD & STUTZMAN LLP

December 4, 2003

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SUMMARY OF AUDITOR RESULTS

June 30, 2003

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Reporting condition(s) identified not considered  
to be material weaknesses?   X   Yes        None reported

Non-compliance material to financial statements noted?        Yes   X   No

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?        Yes   X   No

Reporting condition(s) identified not considered  
to be material weaknesses?        Yes   X   None reported

Type of auditor's report issued on compliance for  
major programs: Unqualified

Any audit findings disclosed that are required to be  
Reported in accordance with Circular A-133,  
Section .510(a)        Yes   X   No

*Identification of Major Programs Tested*

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033 and 84.063	Student Financial Assistance Cluster of Programs

Dollar threshold used to distinguish between Type A  
and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?        Yes   X   No

The District does not qualify as a low-risk auditee for the fiscal year 2002-03, as defined in OMB Circular A-133, because the historical cost of fixed assets were not maintained for the previous two years.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**FINDING 03-1 – FULL-TIME EQUIVALENT STUDENTS (FTES)**

**Original Finding 00-3**

**Finding:** During our testing of the District's online instructor drop system, we noted that adequate controls are not in place to ensure instructors input drop information in a timely manner. We noted that the date the instructors enter the drop information, although untimely, is considered the drop date rather than the actual date of "inactive enrollment". As a result, students that are not actively enrolled as of the census date are potentially reported on the FTES detail reports and improperly claimed for apportionment purposes.

**Recommendation:** The Student Attendance Accounting Manual states that "deadlines used to submit attendance forms for processing have no effect on drop dates. Determining that students are actively enrolled and submitting that information for processing are two independent activities." Section 58004 of Title 5 further goes on to define the "drop date" as "the date used to clear the rolls of all inactive enrollment for attendance accounting purposes". However, we recommend the District implement procedures to ensure timely entry of instructor drop information in order to properly report FTES. In addition, procedures should be implemented to verify that all instructors submit responses to the Admissions and Records Office to ensure completeness of reported information.

**District Response:** The District has revised its online drop rosters for faculty to collect the last date of activity. Consequently, a faculty late drop report after the census date will result in the last date of activity recorded. The last date of activity, completed for each drop, will be used as the official drop date, not the date of transaction. Pursuant to Title 5 section 58030, the CCFS-320 program has been modified to record the last date of activity as the official date of nonparticipation or official drop date for census purposes.



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**(Continued)**

**FINDING 03-2 – FULL-TIME EQUIVALENT STUDENTS (FTES)**

**Finding:** During our testing, we noted that the add/drop forms were revised to reflect that all adds represent active student participation prior to the census date without allowing consideration on a case-by-case basis. Currently, all adds require an instructor's signature for processing. However, the way the form is presented, signatures may be misinterpreted to represent a student's active participation since the start of class or a date prior to the census date, without regards to an instructor's actual intent.

**Recommendation:** To ensure proper reporting on the CCFS-320, the add form should be revised to specifically indicate the instructor's intent as to whether or not the student's add should be back dated to signify active participation since the start of class or a date prior to the census date.

**District Response:** The paper registration form has been revised to include an instructor signature for adds requesting back-dating. Title 5 section 58030, as interpreted by many districts, allows for uniform and equal application of enrollment and disenrollment procedures. As in the cases of disenrollment, the first date of enrollment is determined by the first date of participation or activity. The signature of instructor authorizes a back-date and verifies active participation since the start date of the class and prior to the census date. No instructor signature requesting backdating causes the current date or transaction date to be recorded. There is no backdating with online registration transactions.

**FINDING 03-3 – STATE COMPLIANCE - ALLOCATION OF COSTS**

**Finding:** We noted that employee salaries charged between the EOPS and DSP&S programs are not adequately supported by employee time verification sheets.

**Recommendation:** Multi-funded employees should maintain proper time verification sheets to support the allocation of their salaries between programs.

**District Response:** Fiscal Services will establish a procedure and form for multi-funded employees to document time worked and verify expenses charged under each funding source.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FEDERAL AWARDS**  
**June 30, 2003**

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2003.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2003**

Original Finding No.	Finding	Recommendation	Current Status
00-3	<p><b><u>FULL-TIME EQUIVALENT STUDENTS (FTES)</u></b></p> <p>During our testing of the District's newly implemented online instructor drop system, we noted that adequate controls are not in place to ensure instructors input drop information in a timely manner. We noted that the date the instructors enter the drop information, although untimely, is considered the drop date rather than the actual date of "inactive enrollment". As a result, students that are not actively enrolled as of the census date are potentially reported on the FTES detail reports and improperly claimed for apportionment purposes.</p>	<p>The Student Attendance Accounting Manual states that "deadlines used to submit attendance forms for processing have no effect on drop dates. Determining that students are actively enrolled and submitting that information for processing are two independent activities." Section 58004 of Title 5 further goes on to define the "drop date" as "the date used to clear the rolls of all inactive enrollment for attendance accounting purposes". However, we recommend the District implement procedures to ensure timely entry of instructor drop information in order to properly report FTES.</p>	<p>Not implemented. See current year finding 03-1.</p>
02-2	<p><b><u>FULL-TIME EQUIVALENT STUDENTS (FTES)</u></b></p> <p>During our testing of student add/drop forms, we noted several instances where students added a course after the census date yet were included in the FTES detail and thus claimed for apportionment purposes. Furthermore, it was noted that student add slips that are currently submitted after the census date are reviewed on a case-by-case basis and, if the student is deemed to have been actively attending class from the beginning of the term, their add will be back-dated to a date prior to census. However, we noted no documentation supporting these instances of "exception" that indicated a student's individual case was reviewed and a decision whether or not to back-date the add was made.</p>	<p>To ensure proper reporting on the CCFS-320 reports, process all adds and drops timely and review for accuracy to ensure that only students who are actively enrolled as of the census date are included in the FTES claimed for apportionment purposes. In addition, the back-dating of student adds should only be done on an "exception" basis and should have adequate documentation supporting the determination of "active enrollment". Typically, it is expected that the course instructor would have the most knowledge in regards to a student's "active enrollment" and should be part of the approval process.</p>	<p>Partially implemented. See current year finding 03-2.</p>