

PALOMAR COMMUNITY COLLEGE DISTRICT

SAN DIEGO COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2004**



PALOMAR COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2004

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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, 2004 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, 2004, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2004 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



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 accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the Palomar Community College District's financial statements. The management's discussion and analysis section and supplementary section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying 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 also not a required part of the basic financial statements. The supplementary information, including the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The management's discussion and analysis section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

December 7, 2004

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(Continued)

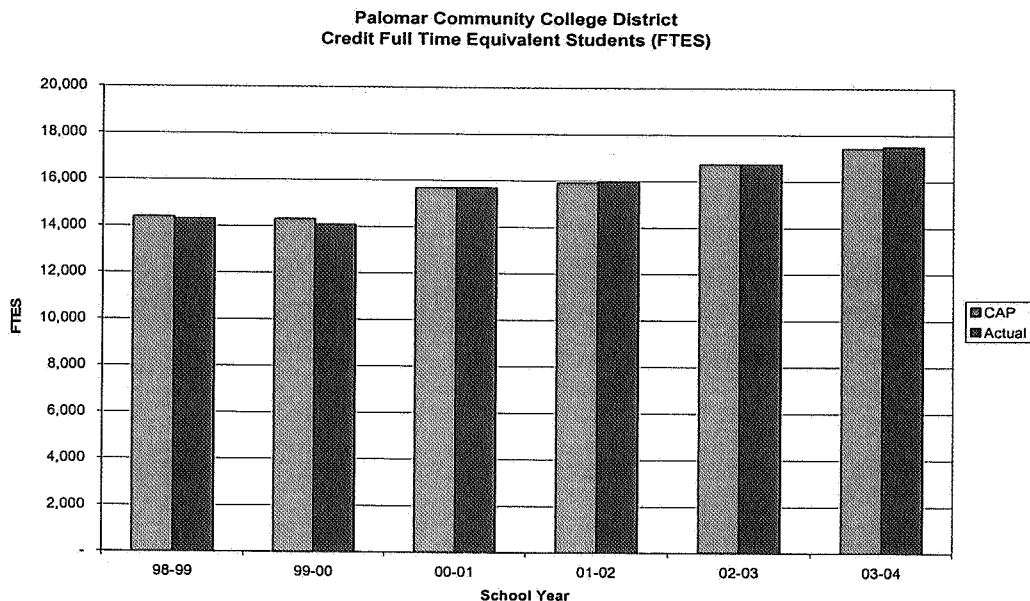
The California Community College system offers the most affordable education among community colleges through the United States. California residents pay an enrollment fee of only \$26 per credit. Out-of-state residents pay the enrollment fee plus tuition fees of \$149 per credit.

Financial Highlights

This section is to provide an overview of the District's financial activities. This is the second year of the new GASB reporting format of information presented in Management's Discussion and Analysis and in the accompanying audited financial statements. A comparative analysis is now provided for years in which we have this new format.

Selected Highlights

- Total full-time equivalent students (FTES) increased approximately 1.24% for credit and increased 16.38% for non-credit courses for an overall increase of 2.49%. The District exceeded its capped funding for credit by 492.18 FTES and non-credit was exactly at cap. The fiscal year 2003-04 Caps shown are 100% of potential growth and are subject to statewide deficit funding that is not known until the first principal apportionment recalculation in February 2005. There is a potential change in growth funding of 4.17% to 2.70% resulting in a reduction of funded FTES of 244.08 credit and 24.52 non-credit for a total of 268.60. The District conservatively accrues the lower of the maximum deficit to minimize the impact of this uncertainty.

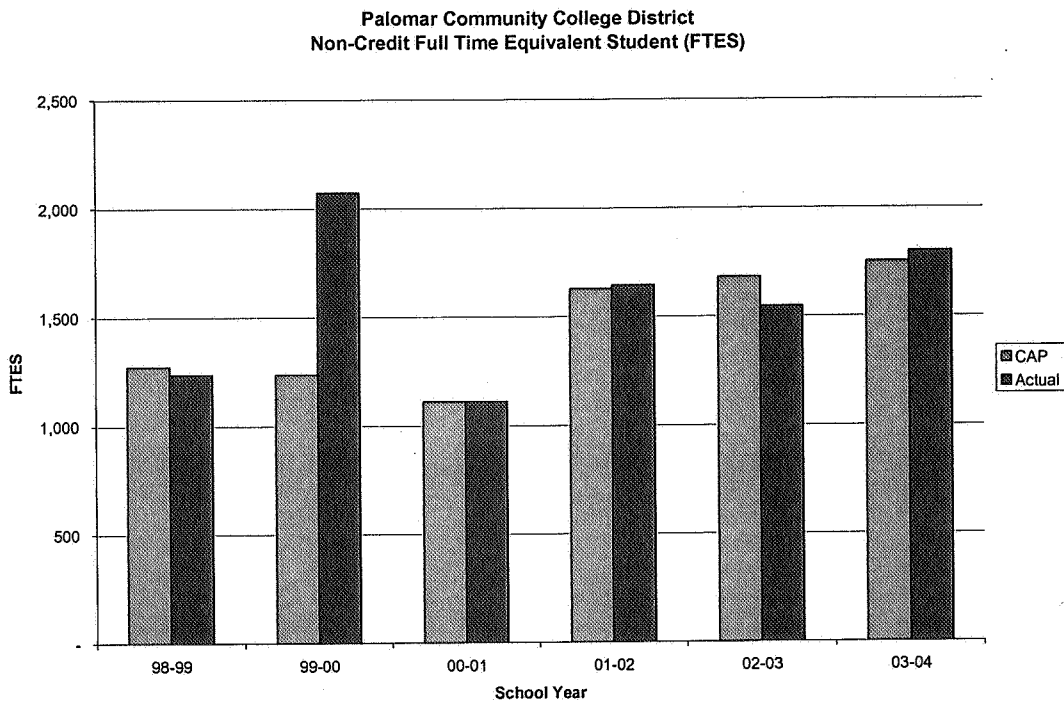


PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(Continued)



- The State proposed several cuts to resolve a financial shortfall of over \$7.9 billion projected through fiscal year 2004-05.
 - Mandated Costs were again continued at zero with a promise to pay in the future.
 - On-going Instructional Equipment and Scheduled Maintenance were reduced by 25% combined and crafted into a one-time block grant. The District chose to put 100% into the Instructional Equipment.
 - Partnership for Excellence reduced by 14.5% or \$604,482
 - Parity funding for Part Time Faculty was reduced by 10.8%
 - A deferral of general apportionment and Partnership for Excellence was crafted to count towards the 2004-05 Proposition 98 guarantee. System wide this totaled \$200 million. These were set up as an accrual and only affects cash flow for the District.
- Financial Aid Administration (Board of Governors Waivers) was significantly augmented to partially offset the increase in student fees.

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

(Continued)

- The problem of property tax shortfall continues, but the forecast for 2003-04 indicated minimal impact. The amount of funding loss based on County Tax Assessors estimates being higher than actual receipts was estimated at \$600,000. This represents about 1%, but latest information indicates this may be changed to 0% with no shortfall for 2003-04.
- The District's assets exceeded liabilities by \$48.5 million.
- Overall revenues were \$98.3 million, which exceed expenses by \$173 thousand.
- The District started, continued and completed various capital outlay projects, expending \$474 thousand. The largest projects are the Student Union Center and the High Technology building. The Student Center opened in Fall of 2003. The High Technology building began construction in Fall 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.

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

(Continued)

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.

A Statement of Net Assets as of June 30, 2003 and 2004 is summarized below:

	(In Millions of Dollars)	
	<u>2003</u>	<u>2004</u>
ASSETS		
Current assets		
Cash, cash equivalents and investments	\$ 39.2	\$ 39.8
Receivables	4.9	5.5
Prepaid expenses	<u>0.1</u>	<u>0.5</u>
Total current assets	<u>44.2</u>	<u>45.8</u>
Non-current assets		
Restricted cash and cash equivalents	0.9	2.2
Capital assets, net	<u>28.0</u>	<u>25.5</u>
Total non-current assets	<u>28.9</u>	<u>27.7</u>
TOTAL ASSETS	<u>\$ 73.1</u>	<u>\$ 73.5</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11.3	\$ 11.4
Deferred revenue	1.7	2.0
Compensated absences	1.9	2.3
Long-term liabilities, current portion	<u>0.6</u>	<u>0.5</u>
Total current liabilities	<u>15.5</u>	<u>16.2</u>
Non-current liabilities		
Long-term liabilities less current portion	<u>9.3</u>	<u>8.8</u>
Total non-current liabilities	<u>9.3</u>	<u>8.8</u>
TOTAL LIABILITIES	<u>24.8</u>	<u>25.0</u>
NET ASSETS		
Invested in capital assets, net of related debt	18.1	16.2
Restricted	18.2	10.3
Unrestricted	<u>12.0</u>	<u>22.0</u>
TOTAL NET ASSETS	<u>48.3</u>	<u>48.5</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$ 73.1</u>	<u>\$ 73.5</u>

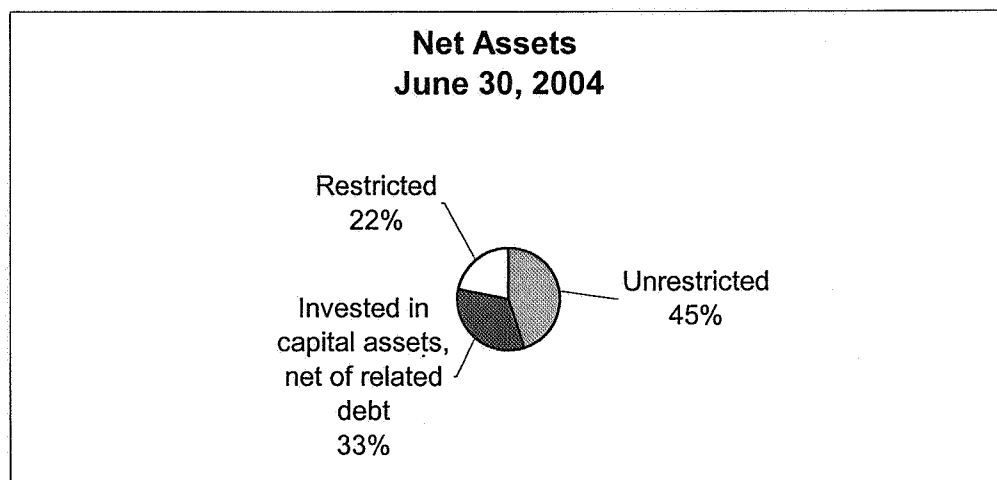
PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(Continued)

- Approximately 98% of the cash balance is cash deposited in the San Diego County Treasury, and approximately 2% consists of deposits with various financial institutions and other investments related to the Certificates of Participation and Revenue Bonds.
- The majority of the accounts receivable balance is from federal and state sources for grant and entitlement programs. Accounts receivable increased over the prior year due to Federal and State governments being slower to pay and by the State deferrals discussed earlier.
- 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 approximately \$2.8 million was recognized during 2003-04. 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, 2004. Total accounts payable are \$4.0 million. Total accrued liabilities of approximately \$7.4 million consist of amounts payable to or on behalf of employees for wages, benefits, accrued vacation, or load banking earned but not yet paid. Current year liabilities were consistent with the prior year.
- The District currently has two debt issues outstanding that amount to \$9.1 million; \$6.1 million of this total is related to Certificates of Participation and \$3.0 million is related to Revenue Bonds. Long-term debt also includes capital leases of \$0.2 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, 2004

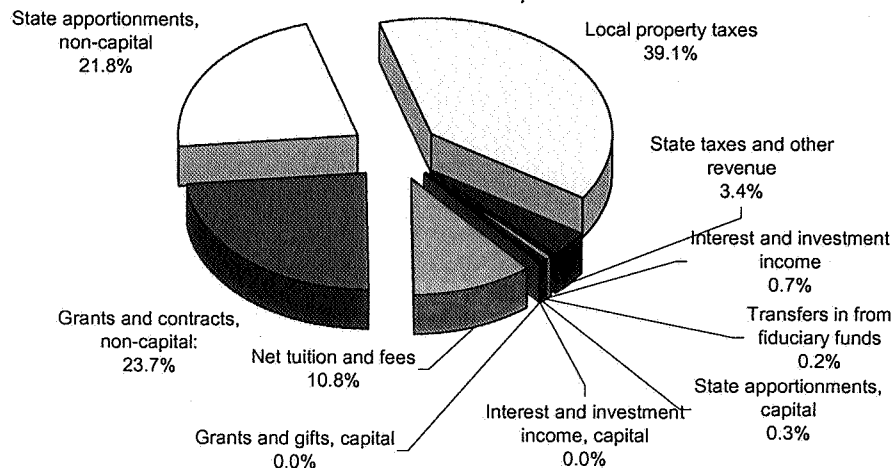
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Statement of Revenues, Expenses, and Changes in Net Assets

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.

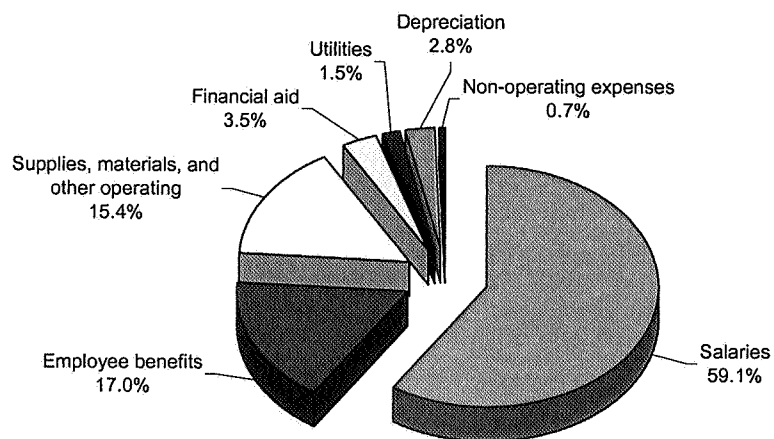
Palomar Community College District
Revenues
For the Year Ended June 30, 2004



**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

(Continued)

**Palomar Community College District
Expenses
For the Year Ended June 30, 2004**



PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(Continued)

A Statement of Revenues, Expenses and Change in Net Assets for the fiscal year ended June 30, 2003 and 2004 is summarized below:

	(In Millions of Dollars)	
	<u>2003</u>	<u>2004</u>
Operating Revenues		
Net tuition and fees	\$ 8.9	\$ 10.7
Grants and contracts, non-capital	<u>28.9</u>	<u>23.3</u>
Total operating revenues	<u>37.8</u>	<u>34.0</u>
Operating Expenses		
Salaries and Benefits	74.0	74.9
Supplies and Other Expenses	18.2	16.6
Financial Aid	4.1	3.5
Depreciation	<u>2.6</u>	<u>2.8</u>
Total operating expenses	<u>98.9</u>	<u>97.8</u>
Operating Loss	<u>(61.1)</u>	<u>(63.8)</u>
Non-operating revenues (expenses)		
State apportionments, non-capital	25.3	21.5
Local property taxes	35.0	38.6
State taxes and other revenues	2.9	3.4
Investment income, net	1.1	0.4
Transfers, net	0.3	0.1
Other non-operating expenses, net	<u>(0.5)</u>	<u>(0.3)</u>
Total non-operating revenues (expenses)	<u>64.1</u>	<u>63.7</u>
Other revenues, expenses, gains or losses		
State apportionments, capital	0.9	0.3
Local property taxes, capital	0.1	0.0
Grants and gifts, capital	<u>0.3</u>	<u>0.0</u>
Total other revenues, expenses, gains or losses	<u>1.3</u>	<u>0.3</u>
Change in Net Assets	4.3	0.2
Net assets, beginning of year	<u>44.0</u>	<u>48.3</u>
Net assets, end of year	<u>\$ 48.3</u>	<u>\$ 48.5</u>

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

(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. Additionally, the State raised the enrollment fee by \$7. These changes are reflected in the \$1.8 million increase.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program. There is a decrease of \$5.6 million primarily related to a change in accounting practice for interdepartmental charges from revenue to abatement of expenses and a change in accounting practice of intrafund contributions to restricted or designated funds from an expense to an abatement of revenue.
- Personnel costs make up 76% of total operating expenses. The balance of operating expenses is for supplies, other services, and capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense. Increases for step and column, benefits offset by savings from hiring freeze total a net increase of \$0.9 million. The District has significant savings in academic salaries from several supplemental early retirement plans that is used to pay for the annual debt service on the annuity.
- Supplies and other operating expense shows a significant reduction of \$1.6 million primarily due to changes in accounting practice, as explained above.
- 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. The State apportionment shows a decrease which is a result of increases in student fees and property taxes.
- 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%.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(Continued)

- Investment income continued to decline as interest rates dropped to a 30 year low. Impact is from a direct correlation to decline in interest rates in general and cash in treasury. Although our cash balance increased, the rates dropped and generated an overall decrease from 2002-03.
- Functional expenses are presented below. Governmental funds included are General Fund, Debt Service Fund, Child Development, Capital Outlay, Energy Conservation, Escondido Tenancies, Retiree Benefits, and Student Financial Aid. More detail on objects for fiscal year 2003-04 is included in Note 14 of the financial statements.

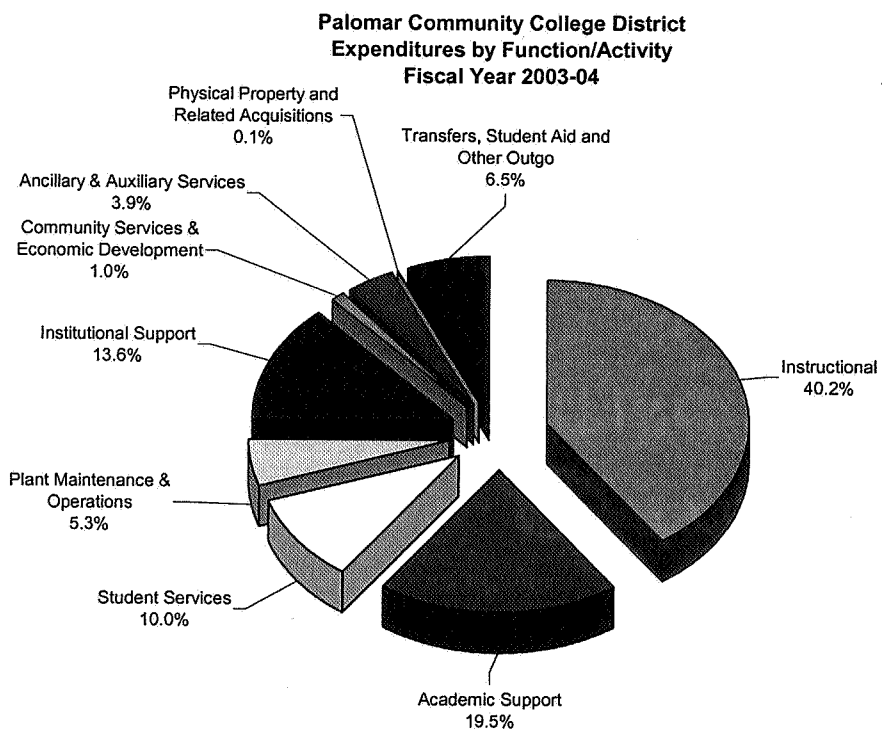
Activity	Code	2001-02 Total	% of Total	2002-03 Total	% of Total	2003-04 Total	% of Total
Instructional	01-59	\$ 35,161,066	36.54%	\$ 38,127,102	38.34%	\$ 39,553,644	40.16%
Academic Support	60-62	\$ 17,638,269	18.33%	\$ 19,246,779	19.35%	\$ 19,191,890	19.49%
Student Services	63-64	\$ 8,977,908	9.33%	\$ 9,367,476	9.42%	\$ 9,829,498	9.98%
Plant Maintenance & Operations	65	\$ 4,599,614	4.78%	\$ 4,850,755	4.88%	\$ 5,207,412	5.29%
Institutional Support	66-67	\$ 15,656,008	16.27%	\$ 13,519,982	13.60%	\$ 13,349,731	13.55%
Community Services & Economic Development	68	\$ 529,244	0.55%	\$ 593,353	0.60%	\$ 955,741	0.97%
Ancillary & Auxiliary Services	69-70	\$ 3,396,786	3.53%	\$ 3,619,099	3.64%	\$ 3,824,561	3.88%
Physical Property and Related Acquisitions	71	\$ 1,606,978	1.67%	\$ 1,059,436	1.07%	\$ 140,049	0.14%
Transfers, Student aid and Other Outgo	72-73	\$ 8,660,361	9.00%	\$ 9,052,620	9.10%	\$ 6,440,468	6.54%
Total		\$ 96,226,234	100.00%	\$ 99,436,602	100.00%	\$ 98,492,994	100.00%

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(Continued)



PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

(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 used 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 used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A Statement of Cash Flows for the fiscal year ended June 30, 2003 and 2004 is summarized below:

	(In Millions of Dollars)	
	2003	2004
Cash Provided by (Used in)		
Operating Activities	\$ (53.3)	\$ (58.0)
Non-capital financing activities	65.9	60.5
Capital and related financing activities	(8.0)	(0.9)
Investing activities	0.1	0.3
Net increase in cash and cash equivalents	4.7	1.9
Cash balance, beginning of year	34.7	39.4
Cash balance, end of year	\$ 39.4	\$ 41.3

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

(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. Step and column plus employee benefits, including a large increase in PERS, and a large increase to payments to suppliers made up the majority of increase in cash used for operating activities.
- State apportionment received based on the workload measures generated by the District accounts for 34.7% of non-capital financing. Cash received from property taxes accounts for 63.4% of the cash generated in this section. The decrease of \$5.4 million is primarily due to less received for state apportionments because of an increase in student fees.
- The primary use included in capital and related financing activities is the purchase of capital assets (building improvements and equipment). The District completed the Student Union Center project early in 2004 and did not have a large capital project during the year resulting in a sharp decrease in capital activities.
- Cash from investing activities is interest earned on cash in bank, cash invested though the San Diego County pool and indenture reserve investments.
- The increase in cash is primarily due to accumulation of liability for adjunct Parity and Salary Enhancement Plan subject to settlement of negotiations.

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, 2004**

(Continued)

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2004, the District had over \$16.2 million invested in net capital assets. Total capital assets of \$56.7 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 \$31.2 million. Capital asset additions, net of construction in progress placed in service, for \$474 thousand occurred during 2003-04 and depreciation expense of \$2.8 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 primarily the completion of the \$4 million Student Center funded through Revenue Bonds and student fee, and various betterments to buildings funded primarily with state awards and unrestricted net assets which were designated for capital purposes.

Construction in progress of approximately \$2.2 million at June 30, 2004 consists mainly of a capital outlay project for construction of the new High Technology building. The High Technology building was in the planning phase during 2001-02 and 2002-03. 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)	
	2003	2004
Land	\$ 9.2	\$ 8.2
Site and Site Improvement	6.8	11.3
Equipment	4.7	3.8
Construction in Progress	7.3	2.2
Net Capital Assets	\$ 28.0	\$ 25.5

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

(Continued)

Debt

At June 30, 2004, the District had \$9.3 million in debt; \$0.2 million from capital lease obligations, \$6.1 million from certificates of participation and \$3.0 million in revenue bonds payable.

These financial statements do not include the actuarially determined liability for retiree benefits of \$34.6 million. GASB Statement No. 45 will address the financial statement presentation related to this liability. Note 12 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)	
	<u>2003</u>	<u>2004</u>
Long Term Debt		
Capital leases	\$ 0.5	\$ 0.2
COP payable	6.4	6.1
Revenue bonds payable	<u>3.0</u>	<u>3.0</u>
 Total long-term debt	 9.9	 9.3
 Less current portion	 <u>0.6</u>	 <u>0.5</u>
 Long term portion	 <u>\$ 9.3</u>	 <u>\$ 8.8</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

(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 2004-05, more so for 2005-06 and beyond due to the economy and budget for the State of California. In 2003-04 and continuing for 2004-05 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 rate of contribution was 2.8% of classified payroll, or \$567,000. For FY03-04 the rate of contribution was 10.42% of classified payroll, or \$1.993 million. The rate for FY04-05 is 9.952% and estimated at \$2.061 million.

The District recognizes that the current budgets identify an on-going operational deficit. The Strategic Planning Council initiated the Fiscal Stability Task Force (FSTF) charged with adjusting the 2004-05 budget to a reasonable deficit level and "right-sizing" the budget for 2005-06 and beyond. The FSTF has initiated processes with result goals of capturing on-going "over-budgeting" from past budget development practices. In addition, they will report in early 2005 with recommendations to strategically process budget development to achieve "right-sizing."

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, 2004

ASSETS

Current assets:

Cash and cash equivalents	\$ 39,074,224
Investments	726,205
Accounts receivable, net	5,262,707
Due from fiduciary funds	221,236
Prepaid expenses	<u>514,302</u>

Total current assets 45,798,674

Non-current assets:

Restricted cash and cash equivalents	2,257,473
Capital assets, net of accumulated depreciation	<u>25,455,875</u>

Total non-current assets 27,713,348

TOTAL ASSETS \$ 73,512,022

LIABILITIES

Current liabilities:

Accounts payable	\$ 4,044,844
Accrued liabilities	7,432,109
Deferred revenue	1,970,897
Due to fiduciary funds	3,466
Compensated absences	2,277,448
Capital leases - current portion	159,323
COP payable - current portion	275,000
Revenue bonds payable - current portion	<u>60,000</u>

Total current liabilities 16,223,087

Non-current liabilities:

Capital leases	12,006
COP payable	5,885,000
Revenue bonds payable	<u>2,890,000</u>

Total non-current liabilities 8,787,006

TOTAL LIABILITIES 25,010,093

NET ASSETS

Invested in capital assets, net of related debt	16,174,546
Restricted for:	
Capital projects	7,285,011
Debt service	726,205
Other special services	2,360,188
Unrestricted	<u>21,955,979</u>

TOTAL NET ASSETS 48,501,929

TOTAL LIABILITIES AND NET ASSETS \$ 73,512,022

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, 2004**

OPERATING REVENUES	
Tuition and fees (gross)	\$ 11,854,263
Less: scholarship discounts & allowances	<u>(1,168,694)</u>
Net tuition and fees	<u>10,685,569</u>
Grants and contracts, non-capital:	
Federal	6,105,487
State	12,641,107
Local	<u>4,599,420</u>
TOTAL OPERATING REVENUES	<u>34,031,583</u>
OPERATING EXPENSES	
Salaries	58,230,901
Employee benefits	16,692,191
Supplies, materials, and other operating expenses and services	15,163,072
Financial aid	3,469,689
Utilities	1,455,242
Depreciation	<u>2,781,066</u>
TOTAL OPERATING EXPENSES	<u>97,792,161</u>
OPERATING LOSS	<u>(63,760,578)</u>
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	21,503,957
Local property taxes	38,608,143
State taxes and other revenue	3,381,031
Interest and investment income	650,439
Transfers in from fiduciary funds	192,305
Unrealized loss on investment	(307,016)
Loss on disposal of capital assets	(189,414)
Transfers out to fiduciary funds	(35,000)
Debt service	<u>(169,403)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>63,635,042</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>(125,536)</u>
OTHER REVENUES, EXPENSES, GAINS AND LOSSES	
State apportionments, capital	253,692
Local property taxes and revenue, capital	5,544
Interest and investment income, capital	<u>39,386</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>298,622</u>
INCREASE IN NET ASSETS	173,086
NET ASSETS - BEGINNING OF YEAR	<u>48,328,843</u>
NET ASSETS - END OF YEAR	<u>\$ 48,501,929</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 9,778,449
Federal grants and contracts	5,873,869
State grants and contracts	13,408,350
Local grants and contracts	5,326,971
Payments to suppliers	(17,395,883)
Payments to/on-behalf of employees	(73,040,105)
Payments to/on-behalf of students	(3,481,634)
Payments for other uses	(645,311)
Net amounts due from fiduciary funds	<u>2,227,603</u>
Net cash used by operating activities	<u>(57,947,691)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	21,030,951
Property taxes	38,359,405
Grants and gifts for other than capital purposes	<u>1,098,102</u>
Net cash provided by non-capital financing activities	<u>60,488,458</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State apportionment for capital purposes	470,997
Interest on capital investments	107,268
Purchase of capital assets	(474,059)
Principal paid on capital debt	(579,011)
Interest paid on capital debt	<u>(448,407)</u>
Net cash used by capital and related financing activities	<u>(923,212)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	566,034
Purchase of investments	(745,866)
Sale of investments	<u>447,562</u>
Net cash provided by investing activities	<u>267,730</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	1,885,285
CASH BALANCE - BEGINNING OF YEAR	<u>39,446,412</u>
CASH BALANCE - END OF YEAR	<u>\$ 41,331,697</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2004

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (63,760,578)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	2,781,066
Changes in assets and liabilities:	
Receivables, net	144,682
Due to fiduciary funds (net)	2,197,801
Prepaid expenses	(115,292)
Accounts payable	616,543
Deferred revenue	223,927
Compensated absences	<u>(35,840)</u>
Net cash used by operating activities	\$ <u>(57,947,691)</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2004

ASSETS

Cash in county treasury	\$	1,300,608
Cash on hand and in banks		83,529
Cash collections awaiting deposit		16,141
Accounts receivable:		
Miscellaneous		19,104
Due from governmental funds		<u>3,466</u>
TOTAL ASSETS	\$	<u>1,422,848</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	11,296
Due to governmental funds		221,236
Deferred revenue		68,250
Amounts held for others		<u>67,524</u>
TOTAL LIABILITIES		<u>368,306</u>

NET ASSETS

Undesignated		<u>1,054,542</u>
TOTAL NET ASSETS		<u>1,054,542</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>1,422,848</u>

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, 2004

ADDITIONS	
Interest and investment income	\$ 21,275
Other local revenues	<u>304,380</u>
TOTAL ADDITIONS	<u>325,655</u>
DEDUCTIONS	
Classified salaries	3,223
Supplies and materials	55,283
Other operating expenses and services	151,712
Capital outlay	14,236
Other transfers out	<u>5,338</u>
TOTAL DEDUCTIONS	<u>229,792</u>
Excess of additions over deductions	<u>95,863</u>
OTHER SOURCES (USES)	
Transfers in from governmental funds	35,000
Transfers out to governmental funds	<u>(192,305)</u>
TOTAL OTHER SOURCES (USES)	<u>(157,305)</u>
CHANGE IN NET ASSETS	(61,442)
NET ASSETS - BEGINNING OF YEAR	<u>1,115,984</u>
NET ASSETS - END OF YEAR	<u>\$ 1,054,542</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. REPORTING ENTITY

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, The Financial Reporting Entity. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support to the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

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

A. REPORTING ENTITY (continued)

3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

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 Foundation is not included as a Component unit because the third criterion above was not met.

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

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

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

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.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

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 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.

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, contracts and debt service requirements.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

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.

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, 2004

(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, 2004

(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 2005 will be recorded in the year computed by the State.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(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 not been accrued in the basic financial statements as the amount is not material.

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 \$1,355,000 for STRS and \$63,500 for PERS.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(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, 2004

(Continued)

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

C. BASIS OF ACCOUNTING: (continued)

15. 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, 2004, consisted of the following:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits:			
Cash on hand and in banks	\$ 1,857,101	\$ 83,529	\$ 1,940,630
Cash in revolving fund	25,000		25,000
Cash collections awaiting deposit	<u>395,473</u>	<u>16,141</u>	<u>411,614</u>
	<u>2,277,574</u>	<u>99,670</u>	<u>2,377,244</u>
Pooled funds (not required to be categorized):			
Cash in County Treasury, at cost	39,361,139	1,300,608	40,661,747
Unrealized loss on investment	<u>(307,016)</u>		<u>(307,016)</u>
Cash in County Treasury, at Fair Value	<u>39,054,123</u>	<u>1,300,608</u>	<u>40,354,731</u>
Total Deposits	<u>\$41,331,697</u>	<u>\$ 1,400,278</u>	<u>\$42,731,975</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(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, 2004, as provided by the pool sponsor, was \$40,344,585. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Deposits at June 30, 2004, 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 Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash on hand and in banks	\$ 77,623	\$2,303,747	\$ 0	\$2,381,370	\$1,940,630
Cash in revolving fund	22,377			22,377	25,000
Cash collections awaiting deposit	_____	_____	_	0	411,614
Total	<u>\$100,000</u>	<u>\$2,303,747</u>	<u>\$ 0</u>	<u>\$2,403,747</u>	<u>\$2,377,244</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, 2004

(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 2003-04 fiscal year, nor were they involved in any reverse repurchase agreements during 2003-04.

Investments at June 30, 2004, 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:

	Category *			Carrying Amount	Fair Value
	1	2	3		
Federated U.S. Treasury	\$	\$	\$ 4,268	\$ 4,268	\$ 4,268
Investment Agreement	—	—	<u>721,937</u>	<u>721,937</u>	<u>721,937</u>
Total Investments	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 726,205</u>	<u>\$ 726,205</u>	<u>\$ 726,205</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, 2004 consists of the following:

Federal and State	\$3,182,256
Miscellaneous	2,080,451

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(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 between governmental funds 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, 2004:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Adjustments</u> <u>and</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>
<u>Capital Assets</u>				
Land and improvements	\$15,622,795	\$	\$	\$15,622,795
Site and site improvements	19,063,184	5,094,182	393,075	23,764,291
Equipment	15,037,731	523,311	429,777	15,131,265
Construction in progress	<u>7,315,415</u>	<u>569,504</u>	<u>5,712,938</u>	<u>2,171,981</u>
Total cost	<u>\$57,039,125</u>	<u>\$ 6,186,997</u>	<u>6,535,790</u>	<u>\$56,690,332</u>
<u>Accumulated Depreciation</u>				
Land improvements	6,447,235	965,335		7,412,570
Site and site improvements	12,245,294	470,414	310,529	12,405,179
Equipment	<u>10,394,300</u>	<u>1,345,317</u>	<u>322,909</u>	<u>11,416,708</u>
Total accumulated depreciation	<u>29,086,829</u>	<u>2,781,066</u>	<u>633,438</u>	<u>31,234,457</u>
Net capital assets	<u>\$27,952,296</u>	<u>\$ 3,405,931</u>	<u>\$ 5,902,352</u>	<u>\$25,455,875</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE 6 – TAX REVENUE ANTICIPATION NOTES (TRANS):

The District issued \$1,185,000 of Tax Revenue Anticipation Notes dated July 1, 2003 through the California Community College Financing Authority. The notes matured on June 30, 2004 and yielded .80% 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 \$604,350 be deposited in both January and April, 2004 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, 2004. Therefore, a liability is not reported on these financial statements.

NOTE 7 - LEASES:

A. Capital Leases

The District leases equipment valued at approximately \$1,284,000 under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-05	\$ 159,323	\$ 15,660	\$ 174,983
2005-06	<u>12,006</u>	<u>1,224</u>	<u>13,230</u>
Total	<u>\$ 171,329</u>	<u>\$ 16,884</u>	<u>\$ 188,213</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, 2004

(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:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2004-05	\$ 212,409
2005-06	<u>176,836</u>
Total	\$ <u>389,245</u>

Current year expenditures for operating leases is approximately \$264,000. 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, 2004

(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 October 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, 2004	\$ 275,000	\$ 136,128	\$ 411,128
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
October 1, 2008	325,000	112,356	437,356
April 1, 2009		105,856	105,856
2009-2014	1,835,000	870,058	2,705,058
2014-2019	2,300,000	396,594	2,696,594
October 1, 2019	<u>525,000</u>	<u>12,141</u>	<u>537,141</u>
 Total	 <u>\$ 6,160,000</u>	 <u>\$ 2,490,799</u>	 <u>\$ 8,650,799</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, 2004, \$5,465,000 of the 1994 Certificates of Participation were outstanding; approximately \$5,629,000 was in the escrow account at June 30, 2004 to pay off this debt.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(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, 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
October 1, 2008		68,542	68,542
April 1, 2009	65,000	68,542	133,542
2009-2014	380,000	641,926	1,021,926
2014-2019	475,000	546,300	1,021,300
2019-2024	610,000	412,938	1,022,938
2024-2029	795,000	225,674	1,020,674
2029-2031	<u>380,000</u>	<u>29,469</u>	<u>409,469</u>
 Total	 <u>\$ 2,950,000</u>	 <u>\$ 2,566,077</u>	 <u>\$ 5,516,077</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE 10 - LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2004 is shown below:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>
Capital leases	\$ 430,340	\$	\$ 259,011	\$ 171,329
Certificates of participation (COP)	6,425,000		265,000	6,160,000
Revenue bonds	<u>3,005,000</u>	<u> </u>	<u>55,000</u>	<u>2,950,000</u>
Totals	<u>\$ 9,860,340</u>	<u>\$ 0</u>	<u>\$ 579,011</u>	<u>\$ 9,281,329</u>

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, 2004

(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 2003-04 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 2003-04 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, 2004

(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 <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2002	\$2,240,781	100%	\$ 0	100%
2003	2,580,601	100%	566,774	100%
2004	2,458,564	100%	1,993,349	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 implementation of Governmental Accounting Standards Board Statement No. 45. In 2003-04, the District paid approximately \$2,201,107 for retiree benefits. The District has budgeted \$2,281,840 for these benefits in 2004-05.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(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, 2004

(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 6/30/2004 <u>(Unaudited)</u>	SELF 6/30/2003 <u>(Audited)</u>
Total assets	\$33,310,596	\$11,337,690	\$25,657,868	\$139,053,000
Total liabilities	<u>25,464,987</u>	<u>5,989,516</u>	<u>17,952,603</u>	<u>107,855,000</u>
Retained earnings	<u>\$ 7,845,609</u>	<u>\$ 5,348,174</u>	<u>\$ 7,705,265</u>	<u>\$ 31,198,000</u>
Total revenues	\$38,878,189	\$39,711,667	\$12,153,185	\$ 40,290,000
Total expenditures	<u>47,280,968</u>	<u>41,582,441</u>	<u>14,049,348</u>	<u>56,733,000</u>
Net decrease in retained earnings	<u>\$ (8,402,779)</u>	<u>\$ (1,870,774)</u>	<u>\$ (1,896,163)</u>	<u>\$ (16,443,000)</u>

NOTE 14 - FUNCTIONAL EXPENSE:

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Financial Aid and Other Outgo	Depreciation	Total
Instructional	\$ 30,125,250	\$ 7,054,303	\$ 2,188,846	\$ 185,245	\$	\$ 39,553,644
Academic Support	11,259,043	3,392,437	4,540,410			19,191,890
Student Services	6,050,088	1,587,095	2,051,633	140,682		9,829,498
Operation & Maintenance of Plant	2,132,175	787,453	2,287,784			5,207,412
Institutional Support	6,126,905	3,201,273	3,871,085	150,468		13,349,731
Community Services and Economic Development	282,508	46,869	626,364			955,741
Ancillary Services and Auxiliary Operations	2,238,236	621,801	847,321	117,203		3,824,561
Physical Property and Related Acquisitions			140,049			140,049
Transfers, Student Aid and Other Outgo	16,696	960	64,822	3,576,924		3,659,402
Depreciation Expense					2,781,066	2,781,066
Total	<u>\$ 58,230,901</u>	<u>\$ 16,692,191</u>	<u>\$ 16,618,314</u>	<u>\$ 4,170,522</u>	<u>\$ 2,781,066</u>	<u>\$ 98,492,994</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(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, 2004, including principal and interest, is \$3,124,397.

C. Purchase Commitments

As of June 30, 2004, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$2,100,000. Projects will be funded through Capital Project Funds.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE 16 - SUBSEQUENT EVENT:

GASB Statement No. 45

The Governmental Accounting Standards Board (GASB) has recently issued GASB Statement No. 45 outlining new accounting standards for governmental agencies regarding other post-employment benefits. The statement will be effective for phase two GASB Statement No. 34 implementers in fiscal year 2008-09. The statement requires 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. Annual required contributions shall include the employer's normal cost and a provision(s) for amortizing the total unfunded actuarial accrued liability for a period not to exceed 30 years. The statement also requires 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, 2004

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
Paul Charas	Student Trustee	2004

DISTRICT EXECUTIVE OFFICERS

Dr. Richard A. Jones, Ed.D.	Interim Superintendent/President
Berta Cuaron	Assistant Superintendent/Vice President, Instruction
Joseph Madrigal	Assistant Superintendent/Vice President, Student Services
Joe Newmyer	Interim Assistant Superintendent/Vice President, Finance and Administrative Services
Jack Miyamoto, Ph.D.	Interim Assistant Superintendent/Vice President, Human Resources and Affirmative Action
Patrick Schwerdtfeger	Dean, Arts, Media, Business and Computing Systems
Wilma Owens	Dean, Career, Technical and Extended Education
Katherine Garlow	Dean, Languages and Literature
Sara Thompson	Interim Dean, Math and the Natural and Health Sciences
Mark Vernoy	Dean, Social and Behavioral Sciences
Lynda Halttunen	Dean, Counseling Services

PALOMAR COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal year Ended June 30, 2004**

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number *</u>	<u>Total Program Expenditures and Encumbrances</u>
U.S. Department of Education			
SEOG	84.007	N/A	\$ 199,800
SEOG administrative allowance	84.007	N/A	22,052
Pell Grant administrative allowance	84.063	N/A	41,057
Pell Grant	84.063	N/A	2,406,779
Higher Education Act:			
Federal Workstudy	84.033	N/A	172,391
Veterans Education	N/A	N/A	4,085
TRIO Educational Opportunity Centers	84.066	N/A	230,828
TRIO Student Support Services	84.042A	N/A	252,229
TRIO Upward Bound	84.047A	N/A	228,416
Gear-Up	84.334A	N/A	1,301,685
Vocational Technology Education Act:			
Leadership IIC	84.048	13920	269,577
ROP	84.048	N/A	78,883
Tech Prep	84.243	13929	75,494
Direct Loans	84.268	N/A	492,931
U.S. Department of Justice			
Department of Justice/ COPS	16.710	N/A	184,335
U.S. Department of Health and Human Services			
Temporary Assistance for Needy Families (TANF)	93.558	N/A	77,590
Child Development Training Consortium	93.575	13967	18,594
U.S. Department of Agriculture			
Child Nutrition	10.555	03755	40,961
U.S. Federal Emergency Management Agency			
Hazard Mitigation	83.548	10041	7,800
Total Federal Programs			\$ 6,105,487

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, 2004

Program Name	Program Entitlements				Program Revenues				Total Program Expenditures and Encumbrances
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Income	Accounts Payable	Total	
State Categorical Aid Programs:									
Associate Nursing Degree Grant	\$ 116,600	\$ 10,535	\$ 127,135	\$ 116,666	\$ 10,535	\$ 66,603	\$	\$ 60,598	\$ 60,598
Apprentice Allowance	1,032,283		1,032,283	1,032,283				1,032,283	1,032,283
Basic Skills	162,354		162,354	162,354				162,354	162,354
BFAP	464,960	1,874	466,834	466,834		40,842		425,992	425,992
Cal Works	149,975		149,975	149,975			2,351	147,624	147,624
CCC Satellite Network	1,800,000	692	1,800,692	1,506,195	154,178			1,660,373	1,660,373
Disabled Student Programs and Services	796,258	50,566	846,824	846,824				846,824	846,824
Economic Development Ongoing	53,676		53,676	53,676				53,676	53,676
Education Network Grant	4,285		4,285	742				742	742
Extended Opportunity Programs & Services	1,010,175	3,591	1,013,766	1,013,766			30,721	983,045	983,045
Instructional Equipment Outgoing		5,034	5,034	2,029				2,029	2,029
Lottery Prop 20 - Instructional Materials	321,849	327,379	649,228		249,390			249,390	249,390
Matriculation	793,971	157,668	951,639	778,366			894	777,472	777,472
Part-Time Faculty	838,297		838,297	838,297				838,297	838,297
Partnership for Excellence	2,783,142	795,184	3,578,326	3,578,326				3,578,326	3,578,326
Staff Diversity	20,801	16,048	36,849	5,483				5,483	5,483
Telecommunications and Technology	64,234	11,307	75,541	46,412				46,412	46,412
TTIP E-Conferencing	2,218,411	239,129	2,457,540	2,457,540		973,074		1,484,466	1,484,466
Total State Program Expenditures	\$ 12,631,271	\$ 1,619,007	\$ 14,250,278	\$ 13,055,768	\$ 414,103	\$ 1,080,519	\$ 33,966	\$ 12,355,386	\$ 12,355,386

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, 2004

Categories

A.	Credit Full-Time Equivalent Students (FTES)	
1.	Weekly census	13,194.66
2.	Daily census	954.12
3.	Actual hour of attendance	502.91
4.	Independent study/work experience	613.00
5.	Summer intersession	<u>1,632.73</u>
	Total	<u>16,897.42</u>
B.	Non-Credit FTES	
1.	Actual hour of attendance	1,489.18
2.	Summer intersessions	<u>309.07</u>
	Total	<u>1,798.25</u>
C.	Basic Skills Courses	
1.	Credit	701.72
2.	Non-credit	<u>1,116.23</u>
	Total	<u>1,817.95</u>
	Gross Square Footage	
	Existing Facilities	<u>646,493</u>
	FTES in Leased Facilities	<u>1,590.41</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, 2004

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Outlay Fund</u>
June 30, 2004 Annual Financial and Budget Report Fund Balance (CCFS-311)	<u>\$15,910,667</u>	<u>\$ 622,845</u>	<u>\$7,216,417</u>
Adjustments and Reclassifications:			
Net Effect of Post-Closing Adjustments			24,779
Unrealized Loss on Investment	(307,016)		
Under-Statement of Beginning Balance	30,666	112,072	
Over-Statement of Revenues	<u>(879,786)</u>	<u>(8,712)</u>	<u> </u>
Net Adjustments and Reclassifications	<u>(1,156,136)</u>	<u>103,360</u>	<u>24,779</u>
June 30, 2004 Audited Fund Balance	<u>\$14,754,531</u>	<u>\$ 726,205</u>	<u>\$7,241,196</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.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF GENERAL FUND FINANCIAL TRENDS AND ANALYSIS

For the Fiscal Year Ended June 30,

	<u>(Budget) 2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>GENERAL FUND:</u>								
<u>Revenue</u>								
Federal	\$ 3,637,262	3.49	\$ 2,965,016	3.19	\$ 2,560,776	2.76	\$ 2,209,095	2.45
State	36,476,397	35.01	36,179,657	38.91	40,751,461	43.96	45,099,366	49.92
County and local	<u>58,520,276</u>	<u>56.17</u>	<u>54,087,420</u>	<u>58.17</u>	<u>49,619,613</u>	<u>53.53</u>	<u>47,199,935</u>	<u>52.24</u>
Total revenue	<u>98,633,935</u>	<u>94.67</u>	<u>93,232,093</u>	<u>100.27</u>	<u>92,931,850</u>	<u>100.25</u>	<u>94,508,396</u>	<u>104.61</u>
<u>Expenditures</u>								
Academic salaries	37,240,163	35.75	35,637,975	38.33	36,714,332	39.61	36,252,120	40.12
Classified salaries	24,006,033	23.04	21,711,803	23.35	22,886,108	24.69	22,081,726	24.44
Employee benefits	19,249,206	18.48	16,502,218	17.75	14,124,853	15.23	12,059,986	13.35
Supplies and materials	1,897,274	1.82	1,466,810	1.58	1,777,935	1.92	1,946,119	2.15
Other operating expenses & services	11,910,244	11.43	10,964,403	11.79	11,802,448	12.73	11,635,116	12.88
Capital outlay	2,439,115	2.34	2,370,873	2.55	2,837,517	3.06	3,603,491	3.99
Other uses (net)	<u>7,437,522</u>	<u>7.14</u>	<u>4,323,698</u>	<u>4.65</u>	<u>2,555,931</u>	<u>2.76</u>	<u>2,770,895</u>	<u>3.07</u>
Total expenditures	<u>104,179,557</u>	<u>100.00</u>	<u>92,977,780</u>	<u>100.00</u>	<u>92,699,124</u>	<u>100.00</u>	<u>90,349,453</u>	<u>100.00</u>
Change in fund balance	\$ <u>(5,545,622)</u>	<u>(5.33)</u>	\$ <u>254,313</u>	<u>0.27</u>	\$ <u>232,726</u>	<u>0.25</u>	\$ <u>4,158,943</u>	<u>4.61</u>
Adjustment for restatement	\$ <u>-</u>	<u>-</u>	\$ <u>-</u>	<u>-</u>	\$ <u>-</u>	<u>-</u>	\$ <u>(609,505)</u>	<u>(0.67)</u>
Ending fund balance	\$ <u>9,208,909</u>	<u>8.84</u>	\$ <u>14,754,531</u>	<u>15.87</u>	\$ <u>14,500,218</u>	<u>15.64</u>	\$ <u>14,267,492</u>	<u>15.79</u>
Full-Time Equivalent Students	<u>18,696</u>		<u>18,696</u>		<u>18,495</u>		<u>18,753</u>	
Total long-term debt	\$ <u>8,787,006</u>		\$ <u>9,281,329</u>		\$ <u>9,860,340</u>		\$ <u>46,037,913</u>	

IMPORTANT NOTES:

For 2002, 2003 and 2004 all percentages are of total expenditures excluding contingencies; for 2005, 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, 2004 and Budget (2005) 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, 2004**

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, 2004 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, 2004

(Continued)

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

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

Bond Interest and Redemption Fund:	
Other Operating Expenses and Services	\$ 8,708
Food Services Fund:	
Interfund Transfers Out	72,957
COPs Capital Projects Fund:	
Debt Service	5,544



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

Chairman

ROYCE A. STUTZMAN

Partners

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COLLEEN K. TAYLOR

DEAN WEST

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

We have audited the financial statements of Palomar Community College District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 7, 2004. 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.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Palomar Community College District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-2, 04-3 and 04-4.



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

(Continued)

A material weakness is a reportable 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 caused by error or fraud 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. We believe items 04-3 and 04-4 of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palomar Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance and other matters that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs as item 04-1.

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 7, 2004



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

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, 2004. 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, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 04-5.

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 reportable 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 caused by error or fraud 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 7, 2004



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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, 2004, and have issued our report thereon dated December 7, 2004.

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 2004 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 residents is claimed for apportionment purposes.



REPORT ON STATE COMPLIANCE

(Continued)

- 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 credit matriculation activities and that all matriculation expenditures are consistent with the District's State approved matriculation plan.
- Whether the District's salaries of instructors teaching FTES generating classes, school counselors providing advisement, student services at the Dean level or above, and financial aid officers conducting need analysis, are not considered supportable charges against either Extended Opportunity Programs and Services (EOPS) or Disabled Student Program Services (DSP&S) accounts unless their activities require them to perform additional functions for the EOPS or DSP&S 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 EOPS Director/Administrator from funds other than EOPS. In addition, the District must employ a full-time 100% Director to manage the daily operations of the EOPS program unless a waiver has been obtained.
- Whether the Gann Limit Calculation was properly calculated and supported by adequate documentation.
- 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 an amount equal to or greater than the amount 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.

In our opinion, except for finding 04-1 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.

REPORT ON STATE COMPLIANCE

(Continued)

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.

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 7, 2004

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2004

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? X Yes 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? X Yes 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) X Yes 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
84.334A	Gear-Up
84.048	Vocational Technology Education Act – Leadership IIC
84.042A	TRIO Student Support Services

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 2003-04, 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 FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-1 – GANN LIMIT

Finding: The District calculated the GANN Limit using the 2003-04 Second Period Factored FTES to arrive at the population factor. The calculation should be based on the 2003-04 Second Period Actual FTES.

Recommendation: The District should recalculate the GANN Limit using the Second Period Actual FTES and submit a revised form to the Chancellor's Office.

District Response: The Gann Limit has been revised for second period actual (not factored) FTES and sent to the appropriate agencies as of January 3, 2005.

FINDING 04-2 – PAYROLL PROCEDURES

Finding: Current payroll procedures involve employees in the Payroll Department entering employees and pay rates into the payroll system for stipends and special duty assignments. Proper internal controls would call for Human Resources to enter all employees and pay rates into the payroll system.

Recommendation: Segregate duties for entering employees and pay rates into the payroll system by assigning this responsibility to the Human Resources Department. Limit the Payroll Department's responsibilities to the actual preparation of pay checks; primarily the entry of hours worked and any special entries such as vacation or sick leave pay. This will improve the effectiveness of internal controls and reduce the risk of fraud.

District Response: The District's Vice President of Human Resources has been notified of this finding and will establish a review team to investigate the PeopleSoft system and personnel staffing to direct changes to establish this internal control as soon as possible and before June 30, 2005.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

(Continued)

FINDING 04-3 – INTERNAL CONTROLS PERTAINING TO
ACCESS TO ACCOUNTING DATA

Finding: There are weaknesses in internal controls related to the accounting process, including delays in deleting terminated employees from computer system functions. Numerous employees who do not need access to the purchasing system are able to make changes, additions or deletions to the District's approved vendor listing. In addition, changes can be made to purchase orders by employees in departments other than Purchasing. A few departments make purchases without contacting the Purchasing Department until after the transaction has been completed.

Recommendation: District management should review the accounting procedures in the areas of access to computer data and functions, and purchasing. Specifically, management needs to determine specific access needs for each position and then instruct the Information Systems Department to program those limitations into the system. Also, develop and follow District-wide procedures for purchasing materials and services. These procedures should identify responsibilities, specifically addressing purchasing procedures for various college departments. In addition, develop a procedure so that Human Resources immediately notifies Information Systems of all employee terminations.

District Response: The District has corrected the inquiry users that were inadvertently given access to change or delete vendors back to inquiry only. Fiscal and Business departments will review and discuss the ability of accounts payable staff making changes to purchase orders. Human Resources has an informal notification process during the exit and will implement a formal notification procedure to Information Systems for terminated employees. Business Services will contact identified departments and implement proper purchasing procedures.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

(Continued)

FINDING 04-4 – CLOSING PROCEDURES

Finding: District management continued to make adjustments to the financial data after they had indicated the balances were final. The closing process included duplicate journal entries, as well as entries which had not been reviewed or approved.

Recommendation: Establish closing procedures which include designation of responsibilities, deadlines for completing various portions of the closing process and procedures for preparing, approving and entering journal entries. In addition, accounting records should be reviewed monthly so that errors may be located and corrected in a timely manner. This will reduce the amount of adjustments necessary at year-end to accurately reflect the District's financial information.

District Response: The Director of Fiscal Services will establish clear task delegation with timely follow up for monthly processes and reconciliations. The Director will also establish a year end closing schedule with clear task delegation and timely follow through in order to meet deadlines to ensure final balances are complete in time for audit.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2004

FINDING 04-5 – SINGLE COST OBJECTIVE EMPLOYEES

Federal Programs: Gear-Up, VTEA Leadership IIC and TRIO Student Support Services

Federal Catalog No.: 84.334A, 84.048 and 84.042A

Finding: OMB Circular A-87 requires that a semi-annual certification be completed in addition to the maintenance of payroll records. The District maintains time records for employees whose positions are funded by Federal programs; however, the required semi-annual certification is not being prepared to support time and effort for employees whose salaries are charged to a single cost objective. Lack of adequate documentation, as required by OMB Circular A-87, could jeopardize the categorical funding related to salaries and benefits received by these programs.

Questioned Costs: The amount potentially at risk due to this issue of non-compliance is approximately \$467,400 for the Gear-Up program, \$90,600 for VTEA Leadership IIC and \$117,700 for the TRIO Student Support Services program.

Recommendation: Develop procedures to ensure that the semi-annual certification is completed for those employees whose salaries are charged to a single cost objective.

District Response: The District will establish a procedure and form for all federally funded personnel to complete and comply with this requirement for Fiscal Year 2004-05.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
 June 30, 2004

Original Finding No.	Finding	Recommendation	Current Status
03-1	<p><u>FULL-TIME EQUIVALENT STUDENTS (FTES)</u></p> <p>Original Finding 00-3</p> <p>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.</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. 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.</p>	Implemented.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2004

<u>Original Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
03-2	<p><u>FULL-TIME EQUIVALENT STUDENTS (FTES)</u></p> <p>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.</p>	<p>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.</p>	Implemented.
03-3	<p><u>STATE COMPLIANCE - ALLOCATION OF COSTS</u></p> <p>We noted that employee salaries charged between the EOPS and DSP&S programs are not adequately supported by employee time verification sheets.</p>	<p>Multi-funded employees should maintain proper time verification sheets to support the allocation of their salaries between programs.</p>	Implemented.