

PALOMAR COMMUNITY COLLEGE DISTRICT

SAN DIEGO COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2006**



PALOMAR COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2006

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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, 2006 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, 2006, 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 November 29, 2006 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 reporting 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

November 29, 2006

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Palomar Community College District (the "District") for the year ended June 30, 2006. This discussion has been prepared by college administration and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District is using the Business Type Activity (BTA) model in which financial reports are generated using the full accrual basis of accounting. The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California Community College Districts, the District has adopted the BTA reporting model for these financial statements.

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

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

The College

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

Palomar College serves more than 29,000 full-time and part-time students each fall and spring semester, while about 15,000 students attend during summer semester. About 28 percent of our students are enrolled full-time, while about 61 percent are enrolled part-time in credit classes, and 11 percent are enrolled in non-credit classes. About 62 percent of our students are under the age of 24, while 38 percent are 24 through 60+.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

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

The California Community College system offers the most affordable education among community colleges throughout the United States. California residents pay an enrollment fee of only \$26 per credit. Out-of-state residents pay the enrollment fee plus tuition fees of \$151 per credit.

Financial Highlights

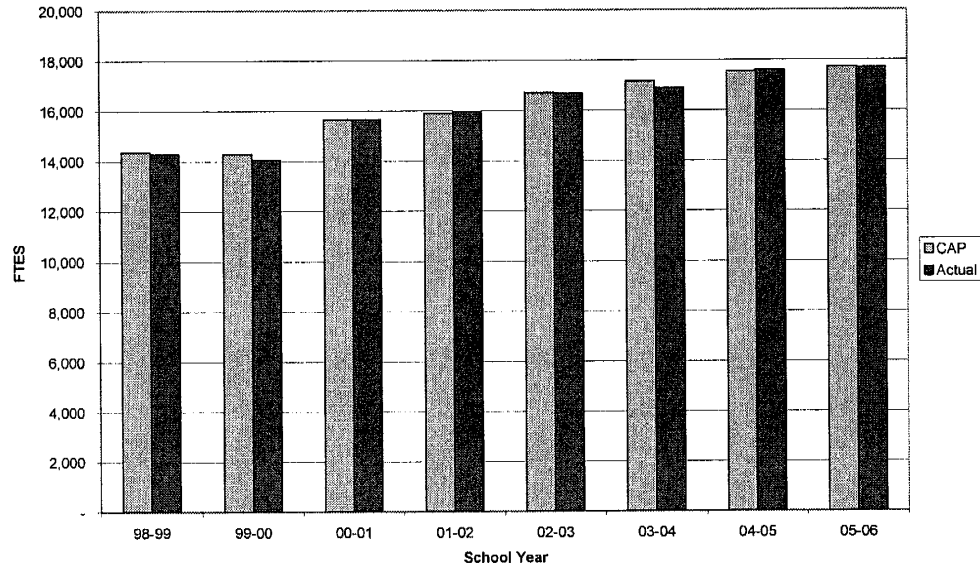
This section is to provide an overview of the District's financial activities. This is the fourth year of the new GASB reporting format of information presented in Management's Discussion and Analysis and in the accompanying audited financial statements. A comparative analysis is provided.

Selected Highlights

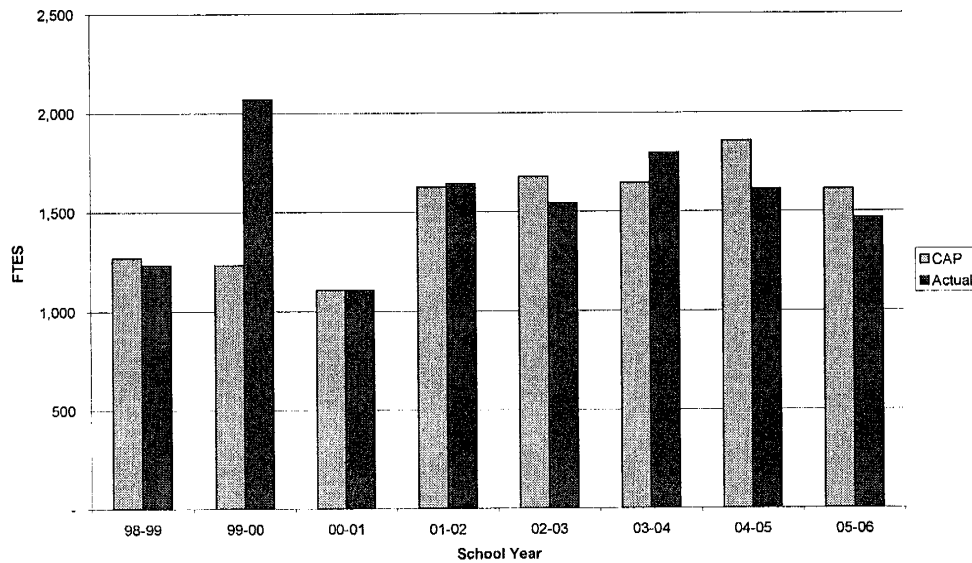
Total full-time equivalent students (FTES) increased approximately .51% for credit and decreased 8.97% for non-credit courses for an overall decrease of .29%. The District was slightly below its capped base funding for credit by 31.59 FTES, and for non-credit by 144.71 FTES. Credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment.

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

**Palomar Community College District
Credit Full Time Equivalent Students (FTES)**



**Palomar Community College District
Non-Credit Full Time Equivalent Student (FTES)**



PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The District's assets exceeded liabilities by \$72.8 million.

Overall revenues were approximately \$128 million, which exceeded expenses by \$16 million.

The District started construction on the Natural Science Building in 2005-06. The scheduled completion date is April 2007, with classes beginning in the fall of 2007.

Statement of Net Assets

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

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

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

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

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

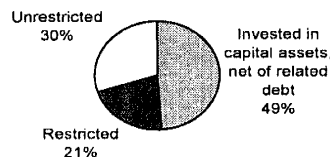
A Statement of Net Assets as of June 30, 2006 is summarized below:

	<i>(In Millions of Dollars)</i>	
	<u>2005</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33.3	\$ 33.0
Receivables	8.2	12.4
Prepaid expenses	0.5	0.9
Total current assets	<u>42.0</u>	<u>46.3</u>
Non-Current assets		
Restricted cash and cash equivalents	0.2	1.2
Capital assets, net	29.8	44.2
Total noncurrent assets	<u>30.0</u>	<u>45.4</u>
TOTAL ASSETS	<u><u>\$ 72.0</u></u>	<u><u>\$ 91.7</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6.2	\$ 6.5
Deferred revenue	1.1	1.2
Compensated absences	2.3	2.6
Long-term liabilities	0.4	0.4
Total current liabilities	<u>10.0</u>	<u>10.7</u>
Non-current liabilities		
Long-term liabilities less current portion	<u>8.6</u>	<u>8.2</u>
Total non-current liabilities	<u>8.6</u>	<u>8.2</u>
TOTAL LIABILITIES	<u>18.6</u>	<u>18.9</u>
NET ASSETS		
Invested in capital assets, net of related debt	20.8	35.6
Restricted	17.5	15.4
Unrestricted	15.1	21.8
TOTAL NET ASSETS	<u>53.4</u>	<u>72.8</u>
TOTAL NET ASSETS AND LIABILITIES	<u><u>\$ 72.0</u></u>	<u><u>\$ 91.7</u></u>

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

- Approximately 90% of the cash balance is cash deposited in the San Diego County Treasury, and approximately 2% is in other various investments related to the Certificates of Participation and Revenue Bonds. The remaining amounts are deposits with various financial institutions.
- The majority of the accounts receivable balance is from federal and state sources for grant and entitlement programs.
- Prior to 2001-02, Palomar College did not maintain records of the historical cost of capital assets. To comply with the new reporting requirement, the District contracted with an outside valuation company to obtain a complete listing of the historical cost and accumulated depreciation information for all capital assets within the capitalization policy established by the District. Capital assets increased by \$14.4 million primarily due to the Natural Science Building Construction. Depreciation expense net of retired assets of approximately \$3.4 million was recognized during 2005-06. The capital asset section of this discussion and analysis provides greater detail. See page xiv for more information.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2006. The total of accounts payable is \$4.4 million. The total accounts payable and accrued liabilities combined are \$6.5 million. Total current liabilities of approximately \$11 million consist of the above mentioned accounts payable and accrued liabilities as well as Certificate of Participation (COP) and leases payable due in one year and amounts payable to or on behalf of employees for wages, benefits, accrued vacation, or load banking earned but not yet paid.
- The District currently has two debt issues outstanding that amount to \$8.4 million; approximately \$5.6 million of this total is related to COP and approximately \$2.8 million is related to Revenue Bonds. Approximately \$3.6 millions due in one year and is reported as current liabilities. Long-term debt also includes capital leases of \$.2 million of which \$0.14 million is considered non-current. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.

Net Assets
June 30, 2006

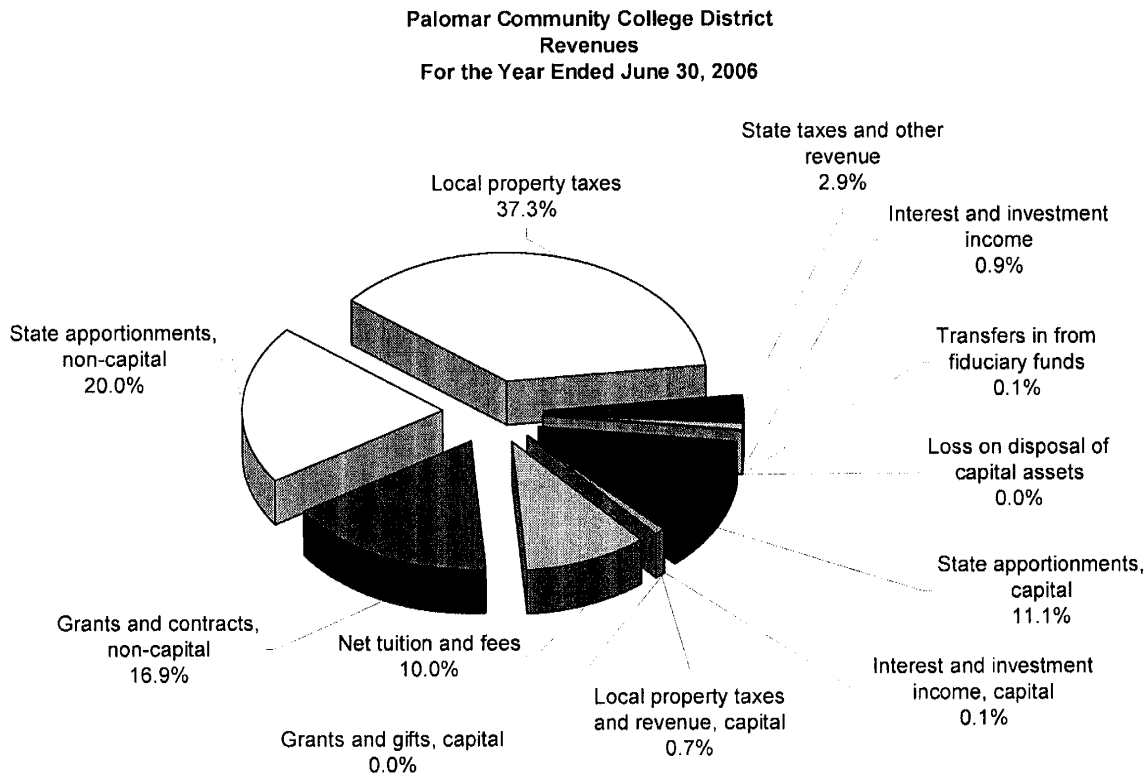


PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Statement of Revenues, Expenses, and Changes in Net Assets

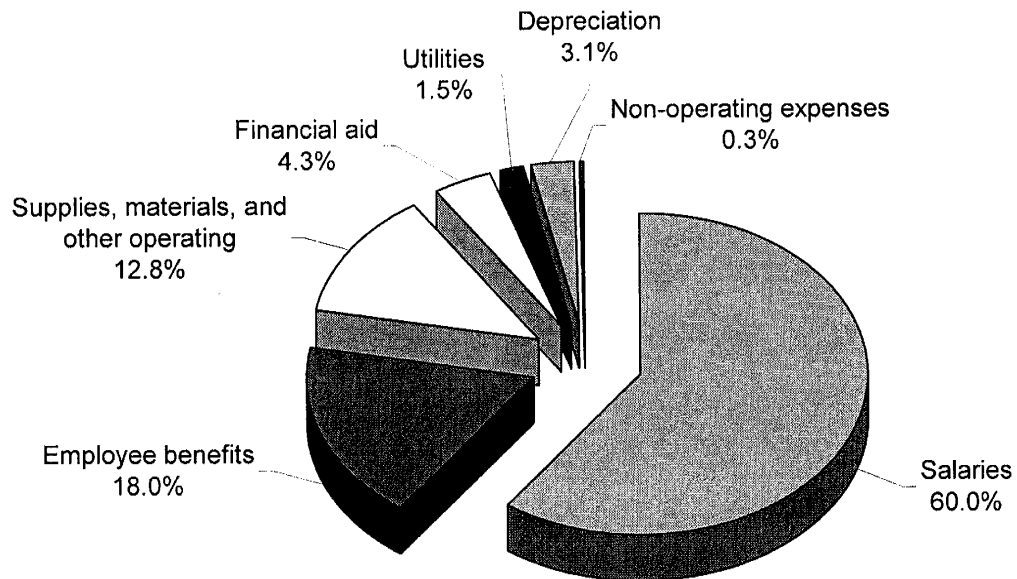
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the operating and non-operative revenues earned, whether received or not, by the District, 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Palomar Community College District
Expenses
For the Year Ended June 30, 2006



PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Statement of Revenues, Expenses and Changes in Net Assets for year ended
As of June 30 Each Year

	<i>(In Millions of Dollars)</i>	
	<u>2005</u>	<u>2006</u>
Operating Revenue		
Net tuition and fees	\$ 13.9	\$ 12.8
Grants and contracts, non-capital	26.4	21.7
Total operating revenues	<u>40.3</u>	<u>34.5</u>
Operating Expenses		
Salaries and benefits	84.2	87.3
Supplies and other expenses	18.8	16.0
Financial aid	4.6	4.9
Depreciation	2.8	3.4
Total operating expenses	<u>110.4</u>	<u>111.6</u>
Operating Loss	<u>(70.1)</u>	<u>(77.1)</u>
Non-operating revenues (expenses)		
State apportionments, non-capital	21.3	25.5
Local property taxes	43.6	47.8
State taxes and other revenues	3.1	3.7
Investment income, net	1.0	1.2
Transfers, net	0.0	0.1
Other non-operating expenses, net	(0.1)	(0.3)
Total non-operating revenues (expenses)	<u>68.9</u>	<u>78.0</u>
Other revenues, expenses, gains or losses		
State apportionments, capital	4.9	14.2
Local property taxes, capital	0.1	0.9
Grants and gifts, capital	0.4	0.0
Total other revenues, expenses, gains or losses	<u>5.4</u>	<u>15.1</u>
Change in Net Assets	4.2	16.0
Net assets, beginning of year	48.5	53.4
Adjustment for restatement (Note 10)	0.7	3.4
Net assets, end of year	<u>\$ 53.4</u>	<u>\$ 72.8</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

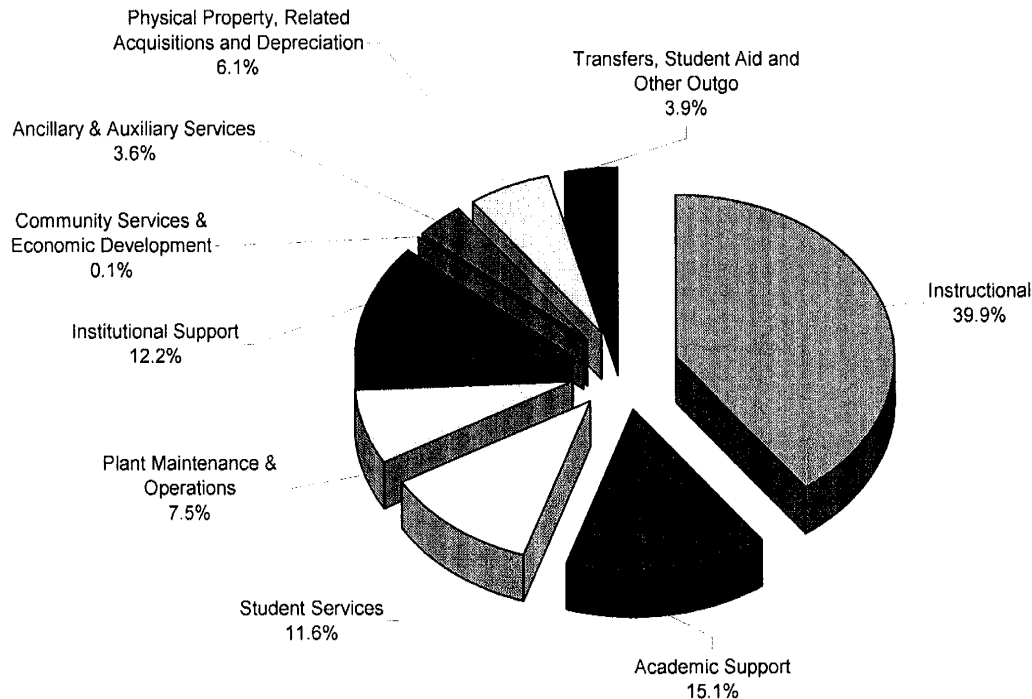
June 30, 2006

- 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.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program. In fiscal year 2005-06, non-capital grants decreased due in large part to the ending of the \$3 million Partnership for Excellence program after fiscal year 2004-05.
- Personnel costs make up 80% of total operating expenses excluding depreciation. There was a 4.23% COLA increase as well as an increase in the cost of benefits.
- The balance of operating expenses includes supplies, other services, and capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense.
- Non-capital State apportionment is generated based on the workload measures reported to the state by the District. An increase was realized in fiscal year 2005-06 as a result of the increase in the State budget allocation to community colleges.
- 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 the San Diego area. Home sales are starting to slow down, but valuations remain high resulting in increased property taxes.
- 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. State capital apportionments increased \$9.3 million as a result of revenue received from the state for construction costs on the Natural Science Building. Capital outlay projects are typically funded 100% percent by the state while the other programs are funded at 50% to 90%.
- Functional expenses are presented on the following page. Governmental funds included are General Fund, Debt Service Fund, Child Development, Capital Outlay, Energy Conservation, Escondido Tenancies, Retiree Benefits, and Student Financial Aid. More detail on objects for fiscal year 2005-06 is included in Note 14 of the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Activity	Code	2003-04 Total	% of Total	2004-05 Total	% of Total	2005-06 Total	% of Total
Instructional	01-59	\$ 39,553,644	40.16%	\$ 45,804,671	41.50%	\$ 44,513,974	39.87%
Academic Support	60-62	\$ 19,191,890	19.48%	\$ 19,251,522	17.44%	\$ 16,889,251	15.13%
Student Services	63-64	\$ 9,829,498	9.98%	\$ 13,513,185	12.24%	\$ 13,002,524	11.65%
Plant Maintenance & Operations	65	\$ 5,207,412	5.29%	\$ 5,894,459	5.34%	\$ 8,380,059	7.51%
Institutional Support	66-67	\$ 13,349,731	13.55%	\$ 14,197,037	12.86%	\$ 13,666,994	12.24%
Community Services & Economic Development	68	\$ 955,741	0.97%	\$ 1,065,421	0.97%	\$ 71,102	0.06%
Ancillary & Auxiliary Services	69-70	\$ 3,824,561	3.88%	\$ 3,926,123	3.56%	\$ 4,026,240	3.61%
Physical Property and Related Acquisitions	71	\$ 2,921,115	2.97%	\$ 2,416,330	2.19%	\$ 6,773,472	6.07%
Transfers, Student Aid and Other Outgo	72-73	\$ 3,659,402	3.72%	\$ 4,309,451	3.90%	\$ 4,322,016	3.87%
Total		\$ 98,492,994	100.00%	\$ 110,378,199	100.00%	\$ 111,645,632	100.00%

Palomar Community College District
Expenditures by Function/Activity
Fiscal Year 2005-06



PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Statement of Cash Flows

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

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

A Statement of Cash Flows for the fiscal year ended June 30, 2005 and 2006 is summarized below:

Statement of Cash Flows As of June 30 each year		
	(In Millions of Dollars)	
	2005	2006
Cash Provided by (Used in)		
Operating activities	\$ (73.9)	\$ (72.6)
Non-capital financing activities	67.9	77.0
Capital and related financing activities	(3.3)	(7.9)
Investing activities	0.7	0.9
Net decrease in cash and cash equivalents	(8.6)	(2.6)
 Cash balance, beginning of year	 41.3	 32.7
 Cash balance, beginning of year - restated (Note 10)	 	 36.1
 Cash balance, end of year	 \$ 32.7	 \$ 33.5

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

- 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. Parity settlements, including retroactive increases, were paid in fiscal year 2004-05 and were not replicated in fiscal year 2005-06. This represented the majority of the decrease in cash used for operating activities.
- State apportionment received based on the workload measures generated by the District accounts for approximately 33% of non-capital financing. Cash received from property taxes accounts for 63% of the cash generated in this section. The increase in property tax was indicative of the strong property valuations in the San Diego area.
- The primary use included in capital and related financing activities is the purchase and construction of capital assets (building improvements and equipment). The Natural Science Building project represented most of the increase in costs in this area.
- Cash from investing activities is interest earned on cash in bank and cash invested through the San Diego County pool and on investments with LAIF and other various investments.

District's Fiduciary Responsibility

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

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Capital Asset and Debt Administration

Capital Assets

- As of June 30, 2006, the District had over \$44.2 million invested in net capital assets. Total capital assets of \$78.4 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 \$34.2 million. Depreciation expense of \$3.4 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 continuing construction on the Natural Science Building.
- Construction in progress of approximately \$23.5 million at June 30, 2006 consists mainly of a capital outlay project for construction of the Natural Science Building. Construction started in earnest in 2005-06 and is reflected in the increased expenditures for construction in progress.

Note 5 to the financial statements provide additional information on capital assets. A summary of capital assets, net of depreciation, is presented below:

Capital Assets, net of Depreciation
As of June 30 Each Year

	(In Millions of Dollars)	
	2005	2006
Land	\$ 7.3	\$ 6.1
Site and Site Improvement	12.2	12.5
Equipment	2.6	2.1
Construction in Progress	7.7	23.5
Net Capital Assets	<u>\$ 29.8</u>	<u>\$ 44.2</u>

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Debt

At June 30, 2006, the District had \$8.6 million in debt; \$0.2 million from capital lease obligations, \$5.6 million from certificates of participation and \$2.8 million in revenue bonds payable.

These financial statements do not include the actuarially determined liability for retiree benefits. GASB 45 accounting standards take effect in 2007-08 for districts with total annual revenues of \$100 million or more; 2008-09 for districts with revenues between \$10 million and \$100 million and 2009-10 for districts with total revenues of less than \$10 million. Note 12 provides additional information.

Note 9 to the financial statements provides additional information on long-term liabilities. A summary of long-term debt is presented below:

Summary of Long-Term Debt		
As of June 30 Each Year		
	(In Millions of Dollars)	
	2005	2006
Long Term Debt		
Capital leases	\$ 0.3	\$ 0.2
COP payable	5.8	5.6
Revenue bonds payable	<u>2.9</u>	<u>2.8</u>
Total long-term debt	9.0	8.6
Less current portion	<u>0.4</u>	<u>0.4</u>
Long term Portion	<u><u>\$ 8.6</u></u>	<u><u>\$ 8.2</u></u>

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Economic Factors that May Affect the Future

The economic position of the District is closely tied to that of the State of California; the economic and budgetary forecast continues to be promising. While the District's fiscal year 2006-07 will show receipt of significant one time funds, all industries, including education, in California are experiencing increased costs for services and especially increased costs for employee benefits, insurance, and utilities. Changes in enrollment are always a concern for community colleges statewide. However, Palomar College enrollment remains constant with increases in enrollment forecasted in the future.

In accordance with the District's two year Fiscal Plan, the college's budgets continue to be built rather than rolled over. The budget development process for FY2007-08 will be similar to the past two years with each department building its budget based upon need while considering three years of actual expenditures.

While the passage of SB361 has increased the District's annual apportionment, the cost of doing business continues to rise. The District's commitment to the implementation of Strategic Plan 2009 and to providing adequate resources to support the college's vision, mission and values continues to drive the development of budgets.

GASB 45 will have a major impact as it requires districts to disclose a liability and funding status for future retiree benefits. Palomar College has already undertaken two actuarial studies and has begun setting aside money to fund the unfunded liability. In accordance with GASB 45, the college will have a plan in place in FY 2007-08 to address this matter.

Palomar successfully passed Proposition M in November 2006 in the amount of \$694 million. The funds from this bond measure will allow Palomar to maintain and modernize existing buildings, improve and replace infrastructure, purchase land and construct new facilities to support our current student population and prepare for future increases in enrollment.

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, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 32,299,161
Investments	737,869
Accounts receivable, net	12,189,451
Due from fiduciary funds	194,918
Prepaid expenses	<u>885,664</u>

Total current assets 46,307,063

Non-current assets:

Restricted cash and cash equivalents	1,245,765
Capital assets, net of accumulated depreciation	<u>44,238,945</u>

Total non-current assets 45,484,710

TOTAL ASSETS \$ 91,791,773

LIABILITIES

Current liabilities:

Accounts payable	\$ 4,416,512
Accrued liabilities	2,115,779
Deferred revenue	1,163,198
Due to fiduciary funds	31
Compensated absences	2,592,696
Capital leases - current portion	67,042
COP payable - current portion	300,000
Revenue bonds payable - current portion	<u>60,000</u>

Total current liabilities 10,715,258

Non-current liabilities:

Capital leases	142,216
COP payable	5,295,000
Revenue bonds payable	<u>2,770,000</u>

Total non-current liabilities 8,207,216

TOTAL LIABILITIES 18,922,474

NET ASSETS

Invested in capital assets, net of related debt 35,604,687

Restricted for:

Capital projects	11,474,027
Debt service	737,869
Other special services	3,219,956

Unrestricted 21,832,760

TOTAL NET ASSETS 72,869,299

TOTAL LIABILITIES AND NET ASSETS \$ 91,791,773

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2006

OPERATING REVENUES	
Tuition and fees (gross)	\$ 15,471,010
Less: scholarship discounts & allowances	<u>(2,598,102)</u>
Net tuition and fees	<u>12,872,908</u>
Grants and contracts, non-capital:	
Federal	6,750,536
State	9,928,699
Local	<u>5,023,220</u>
TOTAL OPERATING REVENUES	<u>34,575,363</u>
OPERATING EXPENSES	
Salaries	67,259,858
Employee benefits	20,116,928
Supplies, materials, and other operating expenses and services	14,333,381
Financial aid	4,863,609
Utilities	1,651,710
Depreciation	<u>3,420,146</u>
TOTAL OPERATING EXPENSES	<u>111,645,632</u>
OPERATING LOSS	<u>(77,070,269)</u>
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	25,567,272
Local property taxes	47,834,119
State taxes and other revenue	3,691,014
Interest and investment income	1,173,515
Transfers in from fiduciary funds, net	112,944
Loss on disposal of capital assets	(6,568)
Debt service	<u>(387,223)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>77,985,073</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>914,804</u>
OTHER REVENUES, EXPENSES, GAINS AND LOSSES	
State apportionments, capital	14,188,280
Local property taxes and revenue, capital	917,324
Interest and investment income, capital	<u>56,058</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>15,161,662</u>
INCREASE IN NET ASSETS	<u>16,076,466</u>
NET ASSETS - BEGINNING OF YEAR	53,432,166
ADJUSTMENT FOR RESTATEMENT (Note 10)	<u>3,360,667</u>
NET ASSETS, BEGINNING OF YEAR - AS ADJUSTED	<u>56,792,833</u>
NET ASSETS - END OF YEAR	<u>\$ 72,869,299</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 11,955,011
Federal grants and contracts	6,726,764
State grants and contracts	11,272,079
Local grants and contracts	5,580,116
Payments to suppliers	(15,972,833)
Payments to/on-behalf of employees	(86,968,957)
Payments to/on-behalf of students	(4,849,337)
Net amounts due to fiduciary funds	<u>(334,541)</u>
Net cash used by operating activities	<u>(72,591,698)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	25,452,817
Property taxes	47,834,119
Grants and gifts for other than capital purposes	3,669,604
Net transfers from fiduciary funds	<u>107,041</u>
Net cash provided by non-capital financing activities	<u>77,063,581</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State apportionment for capital purposes	9,628,870
Interest on capital investments	155,603
Property taxes - capital	917,324
Purchase of capital assets	(17,828,722)
Principal paid on capital debt	(426,474)
Interest paid on capital debt	<u>(396,613)</u>
Net cash used by capital and related financing activities	<u>(7,950,012)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	934,116
Purchase of investments	(838,887)
Sale of investments	<u>823,087</u>
Net cash provided by investing activities	<u>918,316</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (2,559,813)

CASH BALANCE - BEGINNING OF YEAR, before restatement 32,744,072

ADJUSTMENT FOR RESTATEMENT (Note 10) 3,360,667

CASH BALANCE - BEGINNING OF YEAR, after restatement 36,104,739

CASH BALANCE - END OF YEAR \$ 33,544,926

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2006

Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (77,070,269)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	3,420,146
Changes in assets and liabilities:	
Receivables, net	884,132
Due to fiduciary funds (net)	(334,541)
Prepaid expenses	(360,055)
Accounts payable and accrued liabilities	455,911
Deferred revenue	80,021
Compensated absences	<u>332,957</u>
Net cash used by operating activities	<u>\$ (72,591,698)</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

ASSETS

Cash in county treasury	\$	1,583,629
Cash on hand and in banks		140,719
Cash collections awaiting deposit		2,790
Accounts receivable:		
Miscellaneous		36,838
Due from governmental funds		31

TOTAL ASSETS	\$	<u>1,764,007</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	5,856
Due to governmental funds		194,918
Deferred revenue		20,691
Amounts held for others		108,527

TOTAL LIABILITIES		<u>329,992</u>
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NET ASSETS

Undesignated		<u>1,434,015</u>
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TOTAL NET ASSETS		<u>1,434,015</u>
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TOTAL LIABILITIES AND NET ASSETS	\$	<u>1,764,007</u>
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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, 2006

ADDITIONS

Interest and investment income	\$ 44,420
Other local revenues	<u>316,567</u>
TOTAL ADDITIONS	<u>360,987</u>

DEDUCTIONS

Classified salaries	874
Supplies and materials	4,660
Other operating expenses and services	40,222
Capital outlay	1,868
Other transfers out	<u>90,543</u>
TOTAL DEDUCTIONS	<u>138,167</u>

Excess of additions over deductions	<u>222,820</u>
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OTHER SOURCES (USES)

Transfers in from governmental funds	80,000
Transfers out to governmental funds	<u>(192,944)</u>
TOTAL OTHER SOURCES (USES)	<u>(112,944)</u>

CHANGE IN NET ASSETS	109,876
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NET ASSETS - BEGINNING OF YEAR	<u>1,324,139</u>
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NET ASSETS - END OF YEAR	<u>\$ 1,434,015</u>
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See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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 Trustees.

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, 2006

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, 2006

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, 2006

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

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, superseded 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.

Student loans receivable are included in accounts receivable and consist of loan advances to students awarded under the student financial aid programs the District administers for federal agencies. Student loans receivable are recorded net of cancelled principal. The receivables are held in trust for the awarding federal agency.

3. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING (continued)

4. 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.

5. 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.

6. Accounts Payable

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

7. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING (continued)

8. 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.

9. 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, 2006

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

C. BASIS OF ACCOUNTING (continued)

10. 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.

11. 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 2007 will be recorded in the year computed by the State.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING (continued)

12. 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 apportionment purposes. Property taxes for debt service purposes have not been accrued in the basic financial statements as the amount is not material.

13. 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' Retirement System 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 \$731,000 for STRS.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING (continued)

14. 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.

15. 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, 2006

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

C. BASIS OF ACCOUNTING (continued)

16. Estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2006, \$2,757,277 of the District's bank balance of \$2,857,277 was exposed to credit risk as follows:

Collateral held by pledging bank's trust department but not specifically in the District's name	\$2,757,277
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Cash in County

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, 2006, as provided by the pool sponsor, was \$31,537,527. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments

Under provisions of California Government Code Sections 16430, 53601 and 53602 and District Board Policy Section 6006, the District may invest in the following types of investments:

- State of California Local Agency Investment Fund (LAIF)
- San Diego County Investment Pools
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Prime Commercial Paper having an “AA” rating or better

The District did not violate any provisions of the California Government Code or Board Policy during the year ended June 30, 2006.

Investments at June 30, 2006 are in internal investment pools and are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
MBIA Investment Agreement	10/1/2019	\$ 527,981	AA
Bayerische Landesbank	4/1/2031	193,956	AAA
Federated Money Market Obligation			
U.S. Treasury		15,730	
First American Treasury Obligation		<u>202</u>	
Total		<u>\$ 737,869</u>	

The investments in MBIA Investment Agreement and Bayerische Landesbank are Guaranteed Investment Contracts (GIC), therefore no risk is disclosed. The Federated Money Market Obligation U.S. Treasury and First American Treasury Obligation are fully invested in a U.S. Government Security, therefore, no risk is disclosed.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. More than 5% of the District's investments are in the MBIA Investment Agreement and Bayerische Landesbank, which is not at risk as noted above.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2006 consists of the following:

Federal and State	\$10,199,722
Miscellaneous	1,989,729

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
<u>Capital Assets</u>				
Land and improvements	\$ 15,622,795	\$	\$	\$ 15,622,795
Site and site improvements	24,381,267	950,484		25,331,751
Equipment	13,162,679	1,055,456	(202,459)	14,015,676
Construction in progress	<u>7,656,468</u>	<u>16,773,266</u>	<u>(950,484)</u>	<u>23,479,250</u>
Total cost	<u>60,823,209</u>	<u>18,779,206</u>	<u>(1,152,943)</u>	<u>78,449,472</u>
<u>Accumulated Depreciation</u>				
Land improvements	(8,291,496)	(1,178,230)		(9,469,726)
Site and site improvements	(12,123,744)	(748,929)		(12,872,673)
Equipment	<u>(10,571,032)</u>	<u>(1,492,987)</u>	<u>195,891</u>	<u>(11,868,128)</u>
Total accumulated depreciation	<u>(30,986,272)</u>	<u>(3,420,146)</u>	<u>195,891</u>	<u>(34,210,527)</u>
Net capital assets	<u>\$ 29,836,937</u>	<u>\$ 15,359,060</u>	<u>\$ (957,052)</u>	<u>\$ 44,238,945</u>

NOTE 6 - LEASES:

A. Capital Leases

The District leases equipment and a building valued at approximately \$1,129,000 under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-07	\$ 67,042	\$ 7,612	\$ 74,654
2007-08	69,720	4,935	74,655
2008-09	<u>72,496</u>	<u>2,159</u>	<u>74,655</u>
Total	<u>\$209,258</u>	<u>\$ 14,706</u>	<u>\$223,964</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, 2006

NOTE 6 - 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>
2006-07	\$110,520
2007-08	113,184
2008-09	<u>114,048</u>
Total	<u>\$337,752</u>

Current year expenditures for operating leases is approximately \$234,850. The decrease in annual future lease payment obligations for operating leases is due to the expiration of previously negotiated leases. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 7 - CERTIFICATES OF PARTICIPATION:

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.

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, 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
October 1, 2009	340,000	105,856	445,856
April 1, 2010		98,886	98,886
October 1, 2010	350,000	98,886	448,886
April 1, 2011		91,536	91,536
10/1/2011 - 4/1/2016	2,005,000	696,897	2,701,897
10/1/2016 - 10/1/2019	<u>1,965,000</u>	<u>186,735</u>	<u>2,151,735</u>
Total	<u>\$ 5,595,000</u>	<u>\$ 1,970,807</u>	<u>\$ 7,565,807</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - 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 Total Payments</u>
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
October 1, 2009		67,242	67,242
April 1, 2010	70,000	67,242	137,242
October 1, 2010		65,842	65,842
April 1, 2011	75,000	65,842	140,842
10/1/2011 - 4/1/2016	410,000	607,762	1,017,762
10/1/2016 - 4/1/2021	525,000	214,450	739,450
10/1/2021 - 4/1/2026	680,000	628,020	1,308,020
10/1/2026 - 4/1/2031	880,000	139,914	1,019,914
	<u>\$ 2,830,000</u>	<u>\$ 2,275,166</u>	<u>\$ 5,105,166</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 9 - LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2006 is shown below:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>	<u>Amount Due in One Year</u>
Capital leases	\$ 285,732	\$	\$ 76,474	\$ 209,258	\$ 67,042
Certificates of participation (COP)	5,885,000		290,000	5,595,000	300,000
Revenue bonds	<u>2,890,000</u>	<u> </u>	<u>60,000</u>	<u>2,830,000</u>	<u>60,000</u>
Totals	<u>\$9,060,732</u>	<u>\$ </u>	<u>\$426,474</u>	<u>\$8,634,258</u>	<u>\$427,042</u>

NOTE 10 – ADJUSTMENT FOR RESTATEMENT

The beginning fund balance for the Capital Outlay Fund was adjusted by \$3,360,667 to record the Redevelopment Agency funds held with a fiscal agent as cash and cash equivalents.

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, 2006

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 2005-06 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 2005-06 was 9.116% 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, 2006

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Contributions to STRS and PERS

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

Year Ended June 30,	STRS		PERS	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2004	\$2,458,564	100%	\$1,993,349	100%
2005	2,776,507	100%	2,029,623	100%
2006	2,991,233	100%	2,021,347	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 are identified in two groups. The first group includes employees hired prior to March 1, 1994, who were employed by the District for at least 20 years; the benefits for this group and their spouses end when the retiree dies. The second group includes employees hired before March 1, 1994, with more than 10 years of service but less than 20 years of service; and employees hired after March 1, 1994 with at least 10 years of service; these retirees and their spouses will receive medical benefits up to age 65, and dental benefits for the life of the retiree. The estimated total gross liability, based upon an actuarial study dated June 9, 2005 is approximately \$75.3 million; this is the actuarial liability as of March 1, 2005 and is not reflected in these financial statements as long-term debt awaiting implementation of Governmental Accounting Standards Board Statement No. 45. In 2005-06, the District paid approximately \$2,795,465 for retiree benefits. In addition, the General Fund contributed approximately \$2,391,488 toward the payment of the actuarial liability by transferring funds to the Retiree Benefit Fund. This is not reflected as an expense in the basic financial statements. The District has budgeted \$2,933,577 for these benefits in 2006-07.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 13 - JOINT POWERS AGREEMENT:

The Palomar Community College District participates in three joint powers agreement (JPA) entities; 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 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.

Previously the District participated in the San Diego County Schools Risk Management JPA (SDCRM-JPA). Currently they continue to make payments for on-going claims processed by the JPA.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 13 - JOINT POWERS AGREEMENT: (continued)

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

	SDCSFBC 6/30/2004 <u>(Audited)</u>	SWACC 6/30/2005 <u>(Audited)</u>	SELF 6/30/2006 <u>(Unaudited)</u>
Total assets	\$12,303,895	\$28,208,879	\$217,906,001
Total liabilities	<u>6,175,323</u>	<u>15,967,848</u>	<u>191,182,670</u>
Retained earnings	<u>\$ 6,128,572</u>	<u>\$12,241,031</u>	<u>\$ 26,723,331</u>
Total revenues	\$42,836,360	\$ 9,373,188	\$ 62,837,181
Total expenditures	<u>41,993,895</u>	<u>4,837,422</u>	<u>39,336,948</u>
Net change in retained earnings	<u>\$ 842,465</u>	<u>\$ 4,535,766</u>	<u>\$ 23,500,233</u>

NOTE 14 - FUNCTIONAL EXPENSE:

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Financial Aid and Other Outgo	Depreciation	Total
Instructional	\$ 33,256,378	\$ 9,964,618	\$ 1,292,978	\$	\$	\$ 44,513,974
Academic Support	11,816,044	3,105,594	1,967,613			16,889,251
Student Services	9,459,374	2,486,193	971,072	85,885		13,002,524
Operation & Maintenance of Plant	3,032,812	797,109	4,550,138			8,380,059
Institutional Support	7,215,415	3,120,309	3,331,270			13,666,994
Community Services and Economic Development	53,327	14,016	3,759			71,102
Ancillary Services and Auxiliary Operations	2,426,508	629,089	514,935	455,708		4,026,240
Physical Property and Related Acquisitions			3,353,326			3,353,326
Transfers, Student Aid and Other Outgo				4,322,016		4,322,016
Depreciation Expense					<u>3,420,146</u>	<u>3,420,146</u>
Total	<u>\$ 67,259,858</u>	<u>\$ 20,116,928</u>	<u>\$ 15,985,091</u>	<u>\$ 4,863,609</u>	<u>\$ 3,420,146</u>	<u>\$ 111,645,632</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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, 2006, including principal and interest, is \$2,782,429.

C. Purchase Commitments

As of June 30, 2006, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$15,000,000. Projects will be funded through Capital Outlay Funds.

D. Litigation

The District is currently involved in a class action lawsuit involving water damage in Parking Lot 12 and surrounding homes. This is set for trial to start February 2007.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 16 - SUBSEQUENT EVENTS:

A. 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, as defined in GASB No. 45, shall include the employer's normal cost and a provision 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.

B. Provisional Purchase of Passerelle Property

The District has entered into an agreement for the purchase of 80 acres located east of Fallbrook near the intersection of I-15 and Highway 76. The purchase is contingent on the successful passage of a General Obligation Bond measure on the ballot in November 2006. At June 30, 2006, the District had deposited \$500,000 toward the purchase. The District will deposit another \$1,500,000 on December 15, 2006 towards the purchase. The total cost of this improved site is approximately \$52.2 million.

C. General Obligation Bonds

On November 6, 2006, the voters approved the issuance and sale of \$694 million principal amount of general obligation bonds. Proceeds from the sale of the bonds will be used to finance the acquisition of land, construction and modernization of certain District facilities.

SUPPLEMENTARY INFORMATION

PALOMAR COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2006

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

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Michele T. Nelson, Ph.D.	President	2010
Mark R. Evilsizer, M.A.	Vice President	2010
Darrell L. McMullen, M.B.A.	Secretary	2008
Ruth Larson	Trustee	2008
Nancy C. Chadwick, M.S.W., M.P.A.	Trustee	2008
Curtis Van Engel	Student Trustee	2007

DISTRICT EXECUTIVE OFFICERS

Robert P. Deegan	Superintendent/President
Berta Cuaron	Assistant Superintendent/Vice President, Instruction
Joseph Madrigal	Assistant Superintendent/Vice President, Student Services
Bonnie Ann Dowd, Ed.D	Assistant Superintendent/Vice President, Finance and Administrative Services
John Tortarolo	Assistant Superintendent/Vice President, Human Resources and Affirmative Action
Patrick Schwerdtfeger, Ed.D	Dean, Arts, Media, Business and Computing Systems
Wilma Owens	Dean, Career, Technical and Extended Education
Katheryn Garlow, Ph.D.	Dean, Languages and Literature
Sara Thompson	Dean, Math and the Natural and Health Sciences
Mark Vernoy, Ph.D.	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, 2006

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Program Expenditures and Encumbrances</u>
Student Financial Aid Cluster:			
Direct from Department of Education:			
SEOG	84.007	N/A	\$ 196,200
Administrative Allowance - Pell Grant	84.063	N/A	2,833
Pell Grant	84.063	N/A	2,985,195
Administrative Allowance - Federal Work Study	84.033	N/A	12,343
Federal Work Study	84.033	N/A	226,201
Direct Loans	84.268	N/A	741,113
Total Student Financial Aid Cluster			4,163,885
U.S. Department of Education			
TRIO Educational Opportunity Centers	84.066A	N/A	302,457
TRIO Student Support Services	84.042A	N/A	231,427
TRIO Upward Bound	84.047A	N/A	200,153
Gear-Up	84.334A	N/A	1,307,142
Pass Through the California Department of Education (CDE):			
Vocational Technology Education Act:			
Leadership IIC	84.048	13920	262,053
ROP	84.346	N/A	89,572
Tech Prep	84.243	13929	73,348
U.S. Department of Veterans Affairs			
Veterans Education	64.120	N/A	8,529
U.S. Department of Justice			
Bulletproof Vest Partnership	16.607	N/A	1,345
U.S. Department of Health and Human Services			
Pass Through the California Department of Education (CDE):			
Temporary Assistance for Needy Families	93.558	N/A	54,133
Child Development Training Consortium	93.575	13967	19,146
U.S. Department of Agriculture			
Pass Through the California Department of Education (CDE):			
Child Nutrition	10.555	03755	37,346
Total Federal Programs			\$ 6,750,536

N/A - Pass-Through number is 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, 2006**

Program Name	Program Entitlements			Program Revenues				Total Program Expenditures and Encumbrances
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Income	Total	
State Categorical Aid Programs:								
Associate Nursing Degree Grant	\$ 63,937	\$	\$ 63,937	\$ 63,937	\$	\$	\$ 63,937	\$ 63,937
Apprentice Allowance	1,092,708		1,092,708	1,092,708			1,092,708	1,092,708
BFAP	497,171		497,171	497,171			497,171	497,171
Block Grant - Instructional Materials	629,568		629,568	629,568			629,568	629,568
Cal Works	195,471		195,471	168,851	19,301		188,152	188,152
CCC Satellite Network	1,500,000	34,209	1,534,209	734,911	781,909		1,516,820	1,516,820
Disabled Student Programs and Services	895,190		895,190	895,190			895,190	895,190
Education Network Grant		3,203	3,203		986		986	986
Cooperative Agencies Resources for Education	99,363		99,363	96,516	670		97,186	97,186
Extended Opportunity Programs & Services	1,093,764		1,093,764	1,070,585	11,614		1,082,199	1,082,199
Instructional Equipment Outgoing	844		844	844			844	844
Lottery Prop 20 - Instructional Materials		100,000	100,000		95,063		95,063	95,063
Matriculation	1,073,172		1,073,172	1,073,172			1,073,172	1,073,172
Part-Time Faculty	838,297		838,297	838,297			838,297	838,297
Partnership for Excellence	514,175		514,175	514,175			514,175	514,175
Department of Education Interpreters	110,915		110,915	39,555	58,998		98,553	98,553
Staff Diversity	56,451		56,451	26,902	2,622		29,524	29,524
Telecommunications and Technology	1,730		1,730	1,730			1,730	1,730
TTTP E-Conferencing	2,050,000		2,050,000	1,485,000	492,216		1,977,216	1,977,216
Total State Program Expenditures	\$ 10,712,756	\$ 137,412	\$ 10,850,168	\$ 9,229,112	\$ 1,463,379	\$ -	\$ 10,692,491	\$ 10,692,491

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, 2006

Categories

A.	Credit Full-Time Equivalent Students (FTES)	
	Weekly census	13,224.19
	Daily census	1,126.26
	Actual hours of attendance	519.55
	Independent study/work experience	535.97
	Summer intersession	<u>2,282.17</u>
	Total	<u>17,688.14</u>
B.	Non-Credit FTES	
	Actual hours of attendance	1,172.99
	Summer intersessions	<u>296.32</u>
	Total	<u>1,469.31</u>
C.	Basic Skills Courses	
	Credit	724.24
	Non-credit	<u>891.06</u>
	Total	<u>1,615.30</u>
	Gross Square Footage	
	Existing Facilities	<u>670,934</u>
	In-service Training Courses	<u>98.21</u>
	FTES in Leased Facilities	<u>1,753.70</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, 2006

	<u>Debt Service Fund</u>	<u>Capital Outlay Fund</u>	<u>Student Financial Aid Fund</u>
June 30, 2006 Annual Financial and Budget Report Fund Balance (CCFS-311)	\$ <u>638,645</u>	\$ <u>10,215,950</u>	\$ <u>34,377</u>
Adjustments and Reclassifications:			
Understatement of Beginning Fund Balance	99,224		
Understatement of Cash with Fiscal Agent		1,725,886	
Overstatement of Accounts Receivable		(970,484)	
Understatement of Prepaid Expense		500,000	
Post Closing Entries	<u> </u>	<u> </u>	<u>(5,270)</u>
Net Adjustments and Reclassifications	<u>99,224</u>	<u>1,255,402</u>	<u>(5,270)</u>
June 30, 2006 Audited Fund Balance	\$ <u><u>737,869</u></u>	\$ <u><u>11,471,352</u></u>	\$ <u><u>29,107</u></u>

Notes:

1. 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.
2. The Associated Students Trust Fund had an ending balance of \$133,598 as reported on the CCFS-311. Of this amount \$108,527 is shown as funds held in trust.

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,

	(Budget) 2007		2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%
<u>GENERAL FUND:</u>								
<u>Revenue</u>								
Federal	\$ 2,835,486	2.59	\$ 2,792,482	2.53	\$ 2,662,575	2.64	\$ 2,965,016	3.19
State	43,224,990	39.48	38,300,150	34.74	37,543,509	37.21	36,179,657	38.91
County and local	<u>69,004,243</u>	<u>63.01</u>	<u>66,419,787</u>	<u>60.24</u>	<u>61,171,666</u>	<u>60.62</u>	<u>54,087,420</u>	<u>58.17</u>
Total revenue	<u>115,064,719</u>	<u>105.08</u>	<u>107,512,419</u>	<u>97.51</u>	<u>101,377,750</u>	<u>100.47</u>	<u>93,232,093</u>	<u>100.27</u>
<u>Expenditures</u>								
Academic salaries	42,605,213	38.91	41,217,378	37.38	40,052,472	39.69	35,637,975	38.33
Classified salaries	26,377,169	24.09	25,310,109	22.96	23,784,103	23.57	21,711,803	23.35
Employee benefits	21,763,799	19.88	17,131,005	15.54	16,913,521	16.76	16,502,218	17.75
Supplies and materials	1,942,599	1.77	2,119,512	1.92	1,780,357	1.76	1,466,810	1.58
Other operating expenses & services	13,140,439	12.00	11,531,564	10.46	11,225,015	11.12	10,964,403	11.79
Capital outlay	2,451,592	2.24	2,974,866	2.70	2,860,954	2.84	2,370,873	2.55
Other uses (net)	<u>1,218,530</u>	<u>1.11</u>	<u>9,974,264</u>	<u>9.04</u>	<u>4,284,427</u>	<u>4.26</u>	<u>4,323,698</u>	<u>4.65</u>
Total expenditures	<u>109,499,341</u>	<u>100.00</u>	<u>110,258,698</u>	<u>100.00</u>	<u>100,900,849</u>	<u>100.00</u>	<u>92,977,780</u>	<u>100.00</u>
Change in fund balance	<u>\$ 5,565,378</u>	<u>5.08</u>	<u>\$ (2,746,279)</u>	<u>(2.49)</u>	<u>\$ 476,901</u>	<u>0.47</u>	<u>\$ 254,313</u>	<u>0.27</u>
Ending fund balance	<u>\$ 18,050,531</u>	<u>16.48</u>	<u>\$ 12,485,153</u>	<u>11.32</u>	<u>\$ 15,231,432</u>	<u>15.10</u>	<u>\$ 14,754,531</u>	<u>15.87</u>
Full-time equivalent students	<u>19,157</u>		<u>19,157</u>		<u>19,853</u>		<u>18,696</u>	
Total long-term debt	<u>\$ 8,207,216</u>		<u>\$ 8,634,258</u>		<u>\$ 9,060,732</u>		<u>\$ 9,281,329</u>	

IMPORTANT NOTES:

For 2004, 2005 and 2006 all percentages are of total expenditures excluding contingencies; for 2007, 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 2004, 2005, 2006 and Budget (2007) 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, 2006**

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, 2006 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.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

There were no excesses of expenditures over appropriations, by major object accounts.



**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**

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

Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAUTREAU

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JERI A. WENGER

Senior Managers

JANETTE CAMPS

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

TINA HENTON

PHEBE M. MCCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

We have audited the financial statements of Palomar Community College District (the District) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 29, 2006. 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 opinion 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 06-1 and 06-2.

**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**

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. However, we believe none 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 instances of noncompliance and other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as item 06-3 and 06-4.

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

November 29, 2006



**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

Chairman

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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, 2006. 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**

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, 2006. 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 06-5.

Internal Control Over Compliance

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Palomar Community College District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-5.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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

November 29, 2006



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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, 2006, and have issued our report thereon dated November 29, 2006.

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 2006 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

- Whether the District claimed for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date.
- Whether District has complied with all requirements necessary to claim FTES for the attendance of concurrently enrolled K-12 pupils.
- Whether the District had local funds to support at least 75 percent of the 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 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 expended CalWORKS program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKS students.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.
- Whether the District has adopted regulations consistent with the "Standards of Scholarship" contained in the California Code of Regulations and has published statements of those regulations in the College catalog.
- Whether the District has adopted policies or regulations regarding the authority of the District to require students to provide various types of instructional materials and whether the District has advised students of the exemptions from payment of health fees and established a process to ensure that students may claim the exemptions.
- Whether the District completed the noncredit course self assessment requested in April 2005.

REPORT ON STATE COMPLIANCE

In our opinion, except for finding 06-3 and 06-4 described in the accompanying Schedule of Findings and Questioned Costs, Palomar Community College District complied with the compliance requirements for the state programs listed and tested above. Nothing came to our attention as a result of the aforementioned procedures to indicate that Palomar Community College District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

Our examination of compliance made for the purposes set forth in the preceding paragraph of this report would not necessarily disclose all instances of noncompliance.

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

November 29, 2006

PALOMAR COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS**

June 30, 2006

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

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

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

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reporting condition(s) identified not considered
to be material weaknesses? 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, 84.063 and 84.268 84.048, 84.243 and 84.346	Student Financial Assistance Cluster of Programs Vocational Technology Education Act

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

Auditee qualified as low-risk auditee? Yes X No

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2006

Note: Each of the findings and recommendations below include details about the criteria or specific requirements, the condition, the effect and the cause. Questioned costs, if applicable are listed separately. The district response that follows the finding is the District's corrective action plan.

FINDING 06-1 – INTERNAL CONTROLS

Original Finding 05-2

Finding: We noted the following weaknesses in the District's internal controls:

- Journal entry documentation for some entries tested was incomplete (6 from a sample of 17).
- The fixed assets inventory for buildings, site and site improvements and equipment is not reconciled to the general ledger capital outlay expense account balances. In addition, a comprehensive listing of all fixed assets meeting the capitalization criteria is not maintained. We noted recently completed buildings had not been included.

Recommendation: We recommend the following:

- District management should establish procedures for the journal entry process. These procedures should address the preparation and appropriate documentation for all journal entries. In addition a central filing system for journal entries should be implemented.
- The building, site improvements and equipment inventory should be reconciled to the capital outlay expenditures to verify the accuracy of the cost of buildings and equipment added to the District's fixed assets. The process for updating the fixed asset listings should be reviewed and responsibility for maintaining an up to date listing of buildings and site improvement be assigned.

District Response:

- Although the information was not, in some cases, attached to the hard copy of the journal entry; the information was available through the individuals who were responsible for the journal entries. The Fiscal Services Director has met with staff to set appropriate requirements for documentation to support journal entries in the future.
- The Fiscal Services has corrected the comprehensive listing for site improvements and buildings and is working with the Inventory Control Specialist to clarify responsibility for maintenance of the listing of fixed assets. The General Ledger (G/L) is being updated to reflect all assets accurately and regular reconciliation of the G/L and the Inventory Control System will be handled by Fiscal Services.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-2 – STUDENT ACCOUNTS RECEIVABLE

Finding: The District should have a listing of accounts receivable or a reconciliation that agrees to the general ledger account balance. It was noted that the schedule of student accounts receivable provided by the District was significantly different than that of the general ledger. The listing indicated that there was approximately \$2,800,000 in student accounts receivable, whereas the general ledger balance was approximately \$780,000.

Recommendation: The District should maintained a listing of accounts receivable that agrees to or is reconciled to the general ledger balance.

District Response: The General Ledger balance of \$780,000 reflects the expected student receivables that are collectible. The General Ledger books were adjusted three years ago; however, the student receivables were not reconciled to the adjustment. Student Records receivables should include all outstanding receivables in the event a student returns to the District in a future semester. However, Fiscal records should reflect receivables expected to be collected net of allowance for potentially uncollectible receivables. The District is addressing this issue to reconcile between the two sets of records.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-3 – STATE COMPLIANCE (ALLOCATION OF COSTS)

Finding: Per the State Contracted District Audit Manual, employees that are providing services that are allocated between Extended Opportunity Programs & Services (EOPS) and Disabled Students Programs & Services (DSPS) should be adequately documented to identify items and amounts being prorated, basis of and justification for the allocation, and amounts charged to each program. During our testing, we noted that one employee was charged between EOPS, DSPS, and unrestricted General Fund. No documentation was provided to justify the allocation.

Questioned Costs: Not able to determine

Recommendation: The District should maintain the appropriate documentation to support the allocation of costs between programs for those employees charged.

District Response: The District is addressing and expects to resolve this issue in the 2006-07 academic year. The Fiscal Services Department will be working with the Grant Program staff to insure consistency and appropriateness of allocation of costs between programs.

FINDING 06-4 – NON-CREDIT COURSES

Finding: In April 2005, the District was directed by the State Chancellor's Office to complete a self-assessment during prior year 2004-05 on all non-credit courses held during the 2003-04 academic year. Assessments for computer/library lab non-credit courses were required to be submitted to the Chancellor's Office; however, the remaining self-assessment checklists were to be maintained on file at the District. The District did not complete these self-assessments for any courses.

Questioned Costs: Not applicable

Recommendation: The District should complete the self-assessments for the non-credit courses that were in effect during the 2003-04 academic year and all subsequent years as required.

District Response: The District is addressing and expects to resolve this issue in the 2006-07 academic year and will ensure annual self assessments are done.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2006

FINDING 06-5 – SINGLE COST OBJECTIVE EMPLOYEES

Federal Programs: VTEA Tech Prep and VTEA Leadership IIC
Federal Catalog No.: 84.243 and 84.048
Compliance Requirement: B. Allowable Costs/Cost Principals

Original Finding No. 04-5

Finding: OMB Circular A-21 requires that an after-the-fact documentation 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 after-the-fact documentation is not 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-21, could jeopardize the categorical funding related to salaries and benefits received by these programs.

Questioned Costs: Questioned Costs have not been quantified for single funded employees because we do not believe there is evidence that employees are being charged inappropriately to the above mentioned programs; however, the District should be aware that if a federal audit was to occur, funding could be in jeopardy.

Recommendation: Develop procedures to ensure that after-the-fact documentation is completed for those employees whose salaries are charged to a single cost objective.

District Response: The Fiscal Services Department is working with the VTEA Grant Program staff to insure appropriate documentation in the future.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2006

<u>Original Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
05-1	<p><u>PAYROLL PROCEDURES</u></p> <p>Original Finding No. 04-2</p> <p>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. The Payroll Department's responsibilities should be limited to the actual preparation of pay checks, primarily the entry of hours worked and any special entries such as vacation or sick leave pay. The District has compensating controls that reduce the significance of the deficiency in internal control.</p>	<p>All responsibility for entering employees and pay rates into the payroll system should be turned over to the Human Resources Department. This will improve the effectiveness of internal controls and reduce the risk of fraud.</p>	<p>Substantially implemented.</p>

PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2006

Original Finding No.	Finding	Recommendation	Current Status
05-2	<p><u>INTERNAL CONTROLS</u></p> <p>We noted the following weaknesses in the District's internal controls:</p> <ul style="list-style-type: none"> Journal entry documentation for some entries tested was missing or incomplete (12 from a sample of 26). In addition we noted three entries which had not been approved. The passwords of the employees who approve "B" warrants are not changed because the computer system does not force employees to change passwords periodically. The District currently does not have a contingency plan for alternative processing in the event of loss or interruption of the IT function. The equipment inventory is not balanced to the general ledger expense account balance. 	<p>We recommend the following:</p> <ul style="list-style-type: none"> District management should establish procedures for the journal entry process. These procedures should address the preparation, approval and recording of journal entries. In addition, a central filing system for journal entries should be implemented. These improvements would provide a clear trail for internal and audit purposes. The District should implement a process to require the periodic change of employee passwords. The IT department should investigate alternative data processing options that will allow the District to continue operations in the event of a major disruption. The equipment inventory should be reconciled to the equipment expenditures to verify the accuracy of the value of equipment added to the District's property and equipment. 	<p>Partially implemented. See current year finding 06-1.</p>

PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2006

<u>Original Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
05-3	<p><u>STATE COMPLIANCE (MATERIAL FEES)</u></p> <p>Our testing disclosed the following areas of non-compliance concerning materials fees:</p> <ul style="list-style-type: none"> • Material fees were charged for two courses which did not provide tangible personal property to the students (Bowling and Field Study - trip to Santa Catalina) • The District's records were not sufficient to determine the cost of materials provided by the District. We were, therefore, unable to determine if students were being charged more than the District's actual cost of the materials provided. 	<p>The District should implement a process which requires departments wishing to charge material fees to submit a request form. Information included on this form would be an itemization of items to be provided along with the cost to purchase those materials. The form should also address the Education Code requirements for material fees and provide justification for charging a material fee for the items provided. For courses, such as Bowling and Field Study, the fee designation should be changed to more accurately identify what the student is paying for.</p>	Implemented.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2006

<u>Original Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
05-4	<p><u>SINGLE COST OBJECTIVE EMPLOYEES</u></p> <p>Federal Programs: VTEA Leadership IIC</p> <p>Federal Catalog No.: 84.048</p> <p>Original Finding No. 04-5</p> <p>OMB Circular A-21 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-21, could jeopardize the categorical funding related to salaries and benefits received by these programs.</p>	<p>Develop procedures to ensure that the semi-annual certification is completed for those employees whose salaries are charged to a single cost objective.</p>	<p>Not implemented. See current year finding 06-5.</p>