

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SAN DIEGO COUNTY**

**REPORT ON  
AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
INCLUDING REPORTS ON COMPLIANCE  
June 30, 2007**



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**AUDIT REPORT**

**June 30, 2007**

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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, 2007 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, 2007, 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 30, 2007 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 30, 2007



## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2007**

#### **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, 2007. 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 Governmental Accounting Standards Board (GASB) reporting standards, the annual report consists of three basic financial statements that provide information on the District as a whole:

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

#### **The College**

The California Community Colleges system is comprised of 72 districts, 109 campuses, and 65 approved Educational Centers. Palomar College is one of eight Community College districts located in San Diego County. Palomar College has a campus in the City of San Marcos, an approved Educational Center in the City of Escondido, and seven outreach sites throughout north San Diego County in the following communities: Rancho Peñasquitos, Poway, Fallbrook, Ramona, Pauma Valley, Borrego Springs, and Camp Pendleton.

The Palomar College District serves more than 30,000 full-time and part-time students each fall and spring semester, while about 15,000 students attend during summer semester. Approximately 29 percent of our students are enrolled full-time, while about 62 percent are enrolled part-time in credit classes, and 9 percent are enrolled in non-credit classes. About 62 percent of our students are aged 18 through 24, while 38 percent are 24 or older.

Palomar College is currently offering 257 Associate of Arts Degrees and Certificates of Achievement; in addition, it is currently offering 67 Certificates of Proficiency 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 and the 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.

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2007**

The California Community College system offers the most affordable education among community colleges throughout the United States. California residents currently pay an enrollment fee of \$20 per credit. Out-of-state residents pay the enrollment fee plus tuition fees of \$163 per credit.

#### **Financial Highlights**

This section is to provide an overview of the District's financial activities. This is the fifth 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 for the years in which this new format has been used.

#### **Selected Highlights**

In November 2006 the District received voter approval for passage of Proposition M, which provided for \$694 million of general obligation bonds to finance construction of new and remodeled buildings on the San Marcos campus; renovation of the Escondido Education Center; purchase of land in Fallbrook and costs of initial construction on this site; and purchase of a parcel of land in the southern area of the district. The District closed escrow on June 14, 2007 on the Fallbrook site and is currently pursuing approval as an Education Center, which is expected to begin serving the northern part of the District's community in 2011. In addition, the District is actively pursuing identification of a parcel of land in the southern portion of the District's geographical boundaries for future development of another Education Center.

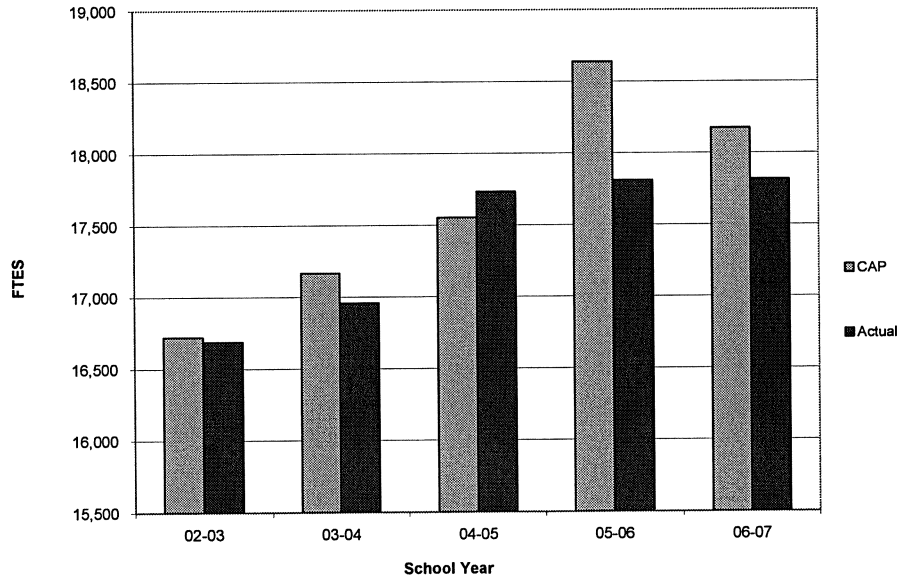
In May 2007 the first series of bonds, Series A, were sold in the amount of \$160 million. This bond issuance is reflected in the increase in cash and long term liabilities between June 30, 2006 and June 30, 2007. To date, approximately one quarter of the \$160 million has been spent to purchase the Fallbrook land, prepare an Environmental Impact Report (EIR) and begin civil engineering design work in preparation for permitting to begin construction of an initial 75,000 to 150,000 square feet of buildings on the Fallbrook site. The funds spent to date for the Fallbrook site are reflected in the increase in Capital Assets.

The District started construction on the Natural Science building on the San Marcos campus in fiscal year 2004-05. The scheduled completion date for the building was April 2007; however, due to some unanticipated delays the building wasn't completed until the summer 2007 with classes beginning in the fall 2007 semester. The Natural Science building is a state of the art, three story building in excess of 107,000 square feet and is the first new instructional building to be constructed on the San Marcos campus in nearly 50 years.

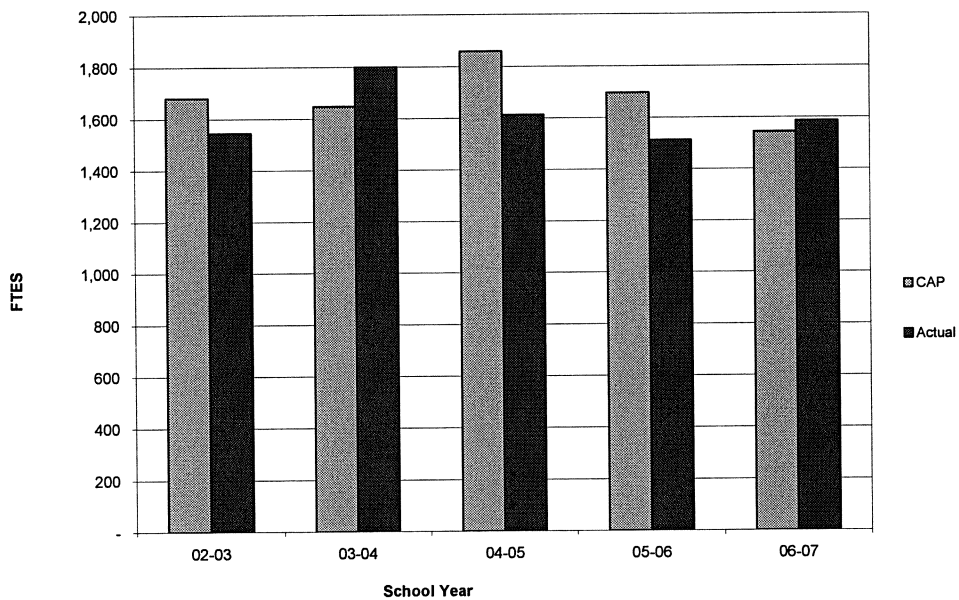
For fiscal year 2006-07 the District's total base full-time equivalent students (FTES) increased approximately .04% for credit and 4.84% for non-credit courses for an overall increase of .42%. The District was below credit "CAP" by 355.96 FTES, and over "CAP" for non-credit by 42.36 FTES. Credit and non-credit base FTES are the basis for the District's state apportionment. Credit and non-credit "CAP" represent FTES growth over base apportionment that the District could have earned in fiscal year 2006-07. On the following page are charts that show the trend for both credit and non-credit FTES for the past 5 years.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

**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, 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 full 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* listed on the *Statement of 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 *Restricted*; 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*; these net assets are available to the District for any lawful purpose of the District.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

A Statement of Net Assets as of June 30, 2007 is summarized below:

	<i>(In Millions of Dollars)</i>	
	<u>2006</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 32.3	\$ 160.0
Investments	0.7	0.7
Receivables	12.4	12.6
Prepaid expenses	<u>0.9</u>	<u>0.6</u>
Total current assets	<u>46.3</u>	<u>173.9</u>
Non-current assets:		
Restricted cash and cash equivalents	1.2	6.4
Capitalized fees		1.6
Capital assets, net	<u>44.2</u>	<u>97.6</u>
Total non-current assets	<u>45.4</u>	<u>105.6</u>
<b>TOTAL ASSETS</b>	<u>\$ 91.7</u>	<u>\$ 279.5</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6.5	\$ 6.7
Deferred revenue	1.2	1.2
Compensated absences	2.6	2.9
Long-term liabilities	<u>0.4</u>	<u>3.7</u>
Total current liabilities	<u>10.7</u>	<u>14.5</u>
Non-current liabilities:		
Long-term liabilities less current portion	<u>8.2</u>	<u>171.9</u>
Total non-current liabilities	<u>8.2</u>	<u>171.9</u>
<b>TOTAL LIABILITIES</b>	<u>18.9</u>	<u>186.4</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	35.6	44.6
Restricted	15.4	22.4
Unrestricted	<u>21.8</u>	<u>26.1</u>
<b>TOTAL NET ASSETS</b>	<u>72.8</u>	<u>93.1</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 91.7</u>	<u>\$ 279.5</u>

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2007**

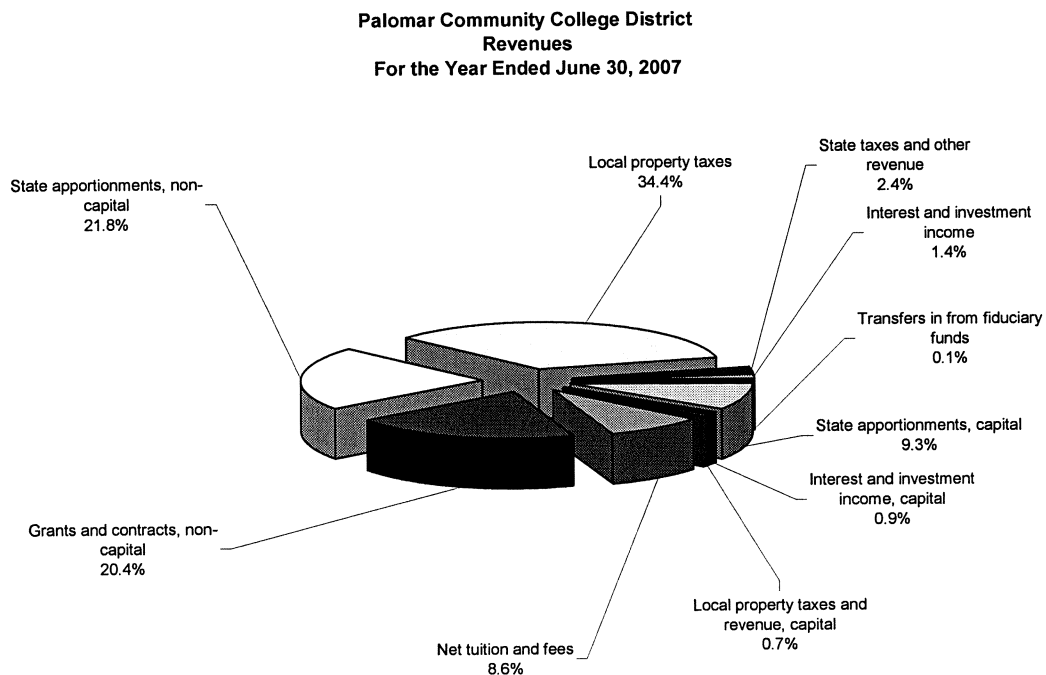
- As previously mentioned in this analysis, the issuance of General Obligations Bonds in the amount of \$160 million had a significant impact on the District's *Statement of Net Assets*. It created a sizeable increase to cash, as well as the non-current liabilities in the form of debt payable. Over \$40 million of the bond proceeds was used to purchase land in Fallbrook and begin development of the site, which created a significant increase to the *Capital Assets, net* account.
- Over 99% of the cash balance is cash deposited in the San Diego County Treasury, and approximately 1% is in other various investments related to Certificates of Participation (COP) and Revenue Bonds. The remaining amounts are cash deposits with various financial institutions.
- The majority of the accounts receivable balance is from federal and state sources for grant and entitlement programs.
- Depreciation expense of approximately \$2.4 million was recognized during fiscal year 2006-07. The capital asset section of this discussion and analysis provides greater detail.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2007. Total accounts payable are \$4.2 million. The total accounts payable and accrued liabilities combined are \$6.7 million. Total current liabilities of \$14.5 million consist of the above mentioned accounts payable and accrued liabilities as well as the current portion of General Obligation Bonds, Certificate of Participation (COP) and leases payable. Also included are 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 three debt issues outstanding that amount to \$174.3 million; \$5.3 million of this total is related to Certificates of Participation, \$2.8 million is related to Revenue Bonds and \$166.1 million is related to the new debt created by the General Obligation Bonds issued in May 2007 for Proposition M. Long-term debt also includes capital leases of \$0.1 million. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

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

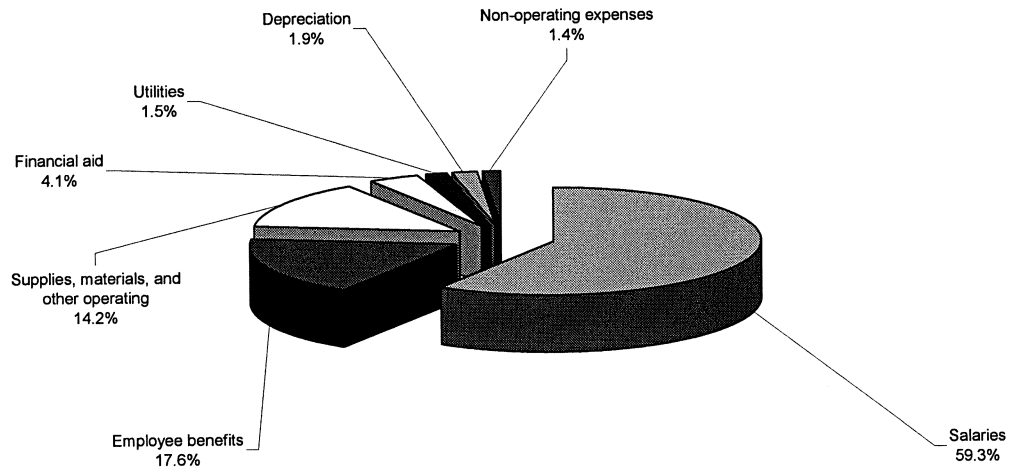
Changes in total net assets as presented on the *Statement of Net Assets* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Assets*. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, by the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

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues earned 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, 2007**

**Palomar Community College District  
Expenses  
For the Year Ended June 30, 2007**





**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

	<i>(In Millions of Dollars)</i>	
	<u>2006</u>	<u>2007</u>
Operating Revenue		
Net tuition and fees	\$ 12.8	\$ 12.4
Grants and contracts, non-capital	<u>21.7</u>	<u>29.5</u>
Total operating revenues	<u>34.5</u>	<u>41.9</u>
Operating Expenses		
Salaries and benefits	87.3	95.7
Supplies and other expenses	16.0	19.6
Financial aid	4.9	5.0
Depreciation	<u>3.4</u>	<u>2.4</u>
Total operating expenses	<u>111.6</u>	<u>122.7</u>
Operating Loss	<u>(77.1)</u>	<u>(80.8)</u>
Non-operating revenues (expenses)		
State apportionments, non-capital	25.5	31.6
Local property taxes	47.8	49.8
State taxes and other revenue	3.7	3.4
Interest and investment income	1.2	1.9
Transfers, net	0.1	0.2
Other non-operating expenses, net	<u>(0.3)</u>	<u>(1.6)</u>
Total non-operating revenues (expenses)	<u>78.0</u>	<u>85.3</u>
Other revenues, expenses, gains or losses		
State apportionments, capital	14.2	13.5
Local property taxes, capital	0.9	1.1
Interest and investment income, capital	<u>0.0</u>	<u>1.2</u>
Total other revenues, expenses, gains or losses	<u>15.1</u>	<u>15.8</u>
Change in Net Assets	16.0	20.3
Net assets, beginning of year	<u>56.8</u>	<u>72.8</u>
Net assets, end of year	<u>\$ 72.8</u>	<u>\$ 93.1</u>

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

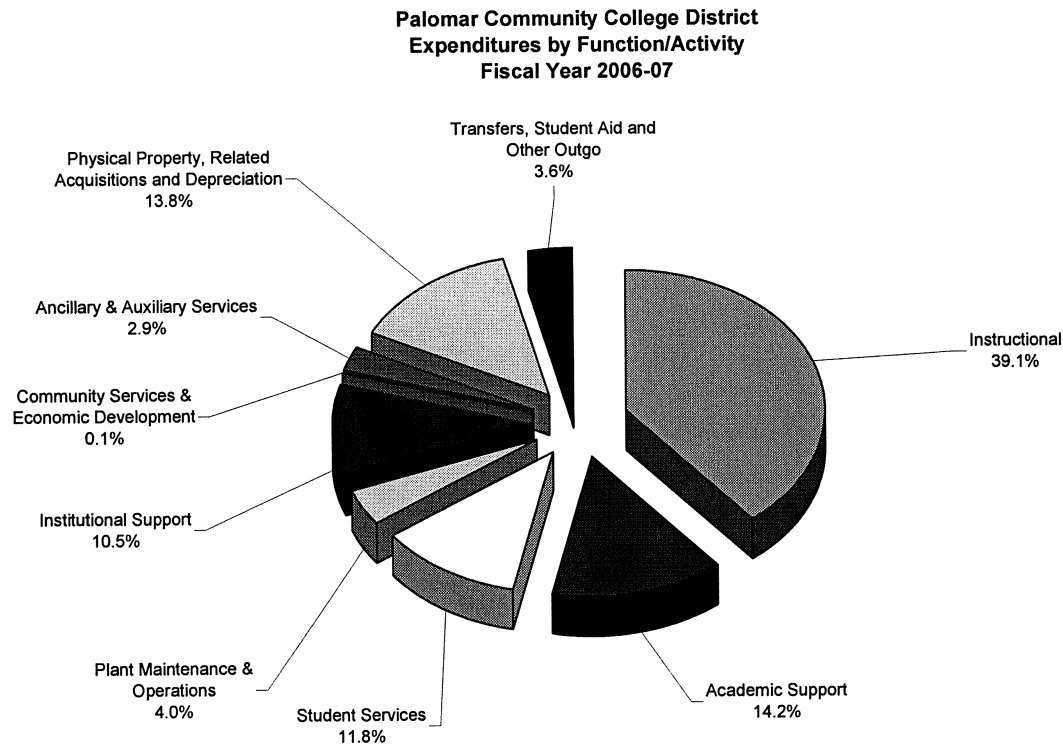
### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2007**

- Tuition and fees are generated by the resident, non-resident, and international 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. Several grants had increases, and in fiscal year 2006-07, Palomar received over \$1.2 million in one-time funds for State mandated costs covering claims for several past years.
- Total operating expenses increased approximately 10% over the prior fiscal year. Personnel costs increased 9.6% of that total and made up 80% of the total operating expenses excluding depreciation. During FY2006-07 there was a 5.92% Cost of Living Adjustment (COLA) increase to the salaries and the corresponding benefits. There was also an increase in the total cost of benefits. The balance of the operating expenses is for supplies, other services, and capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense.
- The Non-capital State apportionment increased with the passage of SB361 by the State Legislature, which increased the funding formula based upon FTES. Palomar College's per FTES apportionment was increased to reflect this equalization to align the district's apportionment in fiscal year 2006-07 to other districts throughout the state.
- 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 been in a state of decreasing valuation in the San Diego area which explains why property taxes did not rise as significantly as it has in prior years.
- The revenue category entitled State apportionments, capital is the amount of capital outlay, scheduled maintenance, architectural barrier removal and hazardous substance funding received from the state through the Department of Finance. Capital outlay projects are typically funded 100% by the state while the other programs are funded at 50% to 90%.
- Functional expenses are presented on the next page by activity as adjusted by external auditors for GASB compliance requirements for financial reporting purposes. Governmental funds included are General, Debt Service, Child Development, Capital Outlay, Energy Conservation, Prop M, Retiree Benefits, and Student Financial Aid. More detail on objects for fiscal year 2006-07 is included in Note 14 of the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

Activity	Code	2004-05 Total	% of Total	2005-06 Total	% of Total	2006-07 Total	% of Total
Instructional	01-59	\$ 45,804,671	41.50%	\$ 44,513,975	39.87%	\$ 48,025,493	39.11%
Academic Support	60-62	19,251,522	17.44%	16,889,250	15.13%	17,421,908	14.19%
Student Services	63-64	13,513,185	12.24%	13,002,524	11.65%	14,511,984	11.82%
Plant Maintenance & Operations	65	5,894,459	5.34%	8,380,060	7.51%	4,948,036	4.03%
Institutional Support	66-67	14,197,037	12.86%	13,666,994	12.24%	12,849,072	10.46%
Community Services & Economic Development	68	1,065,421	0.97%	71,101	0.06%	97,632	0.08%
Ancillary & Auxiliary Services	69-70	3,926,123	3.56%	4,026,239	3.61%	3,610,580	2.94%
Physical Property and Related Acquisitions	71	2,416,330	2.19%	3,353,286	3.00%	16,957,541	13.81%
Transfers, Student Aid and Other Outgo	72-73	4,309,451	3.90%	7,742,162	6.93%	4,365,662	3.56%
<b>Total</b>		<b>\$ 110,378,199</b>	<b>100.00%</b>	<b>\$ 111,645,591</b>	<b>100.00%</b>	<b>\$ 122,787,908</b>	<b>100.00%</b>



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

**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 determine the need for external financing.

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

A Statement of Cash Flows for the fiscal year ended June 30, 2006 and 2007 is summarized and presented below:

	<i>(In Millions of Dollars)</i>	
	<u>2006</u>	<u>2007</u>
Cash Provided by (Used in)		
Operating activities	\$ (72.6)	\$ (78.2)
Non-capital financing activities	77.0	83.1
Capital and related financing activities	(7.9)	126.4
Investing activities	<u>0.9</u>	<u>1.6</u>
Net increase/(decrease) in cash and cash equivalents	(2.6)	132.9
Cash balance, beginning of year	<u>36.1</u>	<u>33.5</u>
Cash balance, end of year	<u><u>\$ 33.5</u></u>	<u><u>\$ 166.4</u></u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

- 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 programs. Salary settlements, along with step and column increases made up the majority of the increase in cash used for operating activities.
- In September 2006 the State Legislature passed SB361 which reformed the general apportionment funding formula for community colleges and resulted in the District's per unit FTES being further equalized to other districts throughout the State. This increase in funding is what significantly contributed to the increase in non-capital financing activities. Additionally, the District received over \$1.2 million dollars of one-time funds in fiscal year 2006-07 when the State approved funding for State mandates, which covered several years of claims. Property taxes also increased, but not as much as in previous years due to the slowdown in the housing market in San Diego.
- The primary amounts included in capital and related financing activities are any financing activities and the purchase of capital assets (building improvements and equipment). As discussed previously, General Obligation Bonds were issued in May 2007 in the amount of \$160 million. Part of the proceeds (approximately \$40 million) from the sale of the Series A bonds was used to purchase land in Fallbrook and to begin the process of development of the site.
- Cash from investing activities is interest earned on cash in bank and cash invested through the San Diego County Treasury and on investments with the Local Agency Investment Fund (LAIF) and other various investments. The District changed banks in fiscal year 2006-07. Prior to this fiscal year, the District did not earn interest on funds in its checking account. As a result of this change, interest income increased significantly. Also, the proceeds from the sale of Series A bonds resulted in a significant amount of interest being earned, even though it had only been invested for two months. The interest earned from the sale of bonds must be used to reduce debt or for construction projects and cannot be used for general operating expenditures.

**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, 2007**

**Capital Asset and Debt Administration**

**Capital Assets**

- As of June 30, 2007, the District had over \$97.6 million invested in net capital assets. Total capital assets of \$133.6 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 \$36 million. Depreciation expense of \$2.4 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 the purchase of land in Fallbrook for \$40 million and the continuing construction on the new Natural Science building.
- Construction in progress of approximately \$36.7 million at June 30, 2007 consists mainly of a capital outlay project for construction of the new Natural Science building. Construction was completed in fiscal year 2007-08 and the building was open for classes starting with the Fall 2007 semester.

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

	<i>(In Millions of Dollars)</i>	
	<u>2006</u>	<u>2007</u>
Land and Improvements	\$ 6.1	\$ 45.6
Site and Site Improvements	12.5	12.5
Equipment	2.1	2.8
Construction in Progress	<u>23.5</u>	<u>36.7</u>
Net Capital Assets	<u>\$ 44.2</u>	<u>\$ 97.6</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

**Debt**

At June 30, 2007, the District had \$174.3 million in debt; \$166.1 in General Obligations Bonds, \$0.1 million from capital lease obligations, \$5.3 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 health benefits. California community college districts are required to follow and present to their auditors under GASB 43 and 45 accounting standards information for note disclosure and reporting purposes in accordance with phases established by GASB 34 and 35 according to revenue generated. Under GASB 34 and 35, Palomar College is a Phase II district and is therefore subject to GASB 43 and 45 accounting standard requirements effective fiscal year 2008-09. See Note 12 to the financial statement for additional information.

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

	<i>(In Millions of Dollars)</i>	
	<u>2006</u>	<u>2007</u>
Long-Term Debt		
Capital leases	\$ 0.2	\$ 0.1
COP payable	5.6	5.3
Revenue bonds payable	2.8	2.8
General obligation bond	<u>          </u>	<u>166.1</u>
Total long-term debt	8.6	174.3
Less current portion	<u>0.4</u>	<u>2.4</u>
Long-term portion	<u>\$ 8.2</u>	<u>\$ 171.9</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007**

**Economic Factors that May Affect the Future**

The economic position of the District is closely tied to that of the State of California. The fiscal year 2007-08 budget was basically a COLA and growth budget. Districts received a State COLA of 4.53% and 2% enrollment growth for apportionments including selected categorical programs. One of the most significant aspects of the 2007-08 Budget Act is a reduction in apportionments in the amount of \$80 million. This is in addition to the \$80 million reduction in fiscal year 2006-07; however, there is the opportunity for reversion of unused apportionment funds for that fiscal year. The long term impact on individual districts of the cut to apportionments isn't quite clear. The Legislative Analyst Office (LAO) predicts that despite the \$4.1 billion reserve in the 2007-08 State Budget, negative factors will lead to a year-end deficit of \$1.9 billion for 2007-08. The state is not legally obligated to address this projected deficit and may opt to roll it forward into the 2008-09 fiscal year. In addition to reductions in funding, all industries, including education, in California are experiencing increased costs for services and especially increased costs for employee benefits, insurance, and utilities. Housing prices continue to slide in California, especially in San Diego, and foreclosures are increasing rapidly. During times of economic downturns, community college enrollments increase; however, funding decreases, which has an impact on a District's ability to accommodate increasing demand due to decreasing funding.

The fiscal year 2008-09 budget is at best "grim" given a \$10 billion projected structural deficit. Given the structural budget imbalance projected, it is unlikely that much of the requests made by the California Community College System Office will survive and be included in the Governor's Budget, which is due to be released in mid-January. The structural imbalance is expected to continue into fiscal year 2009-10; however current projections for fiscal year 2010-11 indicate that the structural imbalance will greatly improve. No recession is forecasted for California; however, a downturn is projected for the next several years.

For fiscal year 2007-08 the District continued to build budgets based on departmental needs rather than rolling budgets over from the prior year. The budget for fiscal year 2007-08 was adopted as a balanced budget, using a portion of the beginning fund balance to offset budgeted expenses in excess of budgeted revenues. The full impact of any labor negotiations is unknown at this time pending settlement; however, the fiscal year 2007-08 COLA has been set aside for all employee groups in the Adopted Budget.

GASB No. 43 and No. 45 will have a major impact system-wide as it requires districts to disclose a liability and funding status for future retiree benefits. Palomar College completed an actuarial study in 2005 and is currently in the process of conducting another one in preparation for the development of a plan to address the unfunded retiree benefit liability by July 1, 2008, which is the required deadline for Palomar to be in compliance with GASB No. 43 and No. 45. It is noteworthy to mention that the District has been setting aside funds in addition to the monthly "pay as you go" requirement in order to address the sizable unfunded retiree medical liability that exists.



## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2007**

As previously discussed, the District opened the Natural Science building, which is more than 100 thousand gross square feet of classroom, lab, and office space starting with the fall 2007 semester. This building was the first new instructional building to be built on the San Marcos campus in nearly 50 years. The opening of the Natural Science building is expected to improve student access and result in increased enrollments in fiscal year 2007-08 and beyond.

On November 7, 2006 the statewide electorate approved the passage of Proposition 1D, which provides the District with capital outlay funds to build the Multidisciplinary Instructional Building. This building will provide more than 100 thousand gross square feet of instructional space. It will replace existing deteriorated and temporary facilities with state of the art classrooms and labs that will house several academic disciplines and is also expected to increase access and enrollment in fiscal year 2007-08 and beyond.

On May 2, 2007, Palomar sold its first series of bonds under Proposition M, which was approved by the District's electorate in November 2006. Series A bonds were issued in the amount of \$160 million dollars and provided the funds to begin the process of maintaining and modernizing the San Marcos campus, the Escondido Education Center and purchase land for future needs of the District in the northern and southern portion of the district. Palomar closed escrow on approximately 85 acres of land in Fallbrook on June 14, 2007. The District is in the midst of concluding an Environmental Impact Report (EIR) for certification under State CEQA guidelines and has begun civil design engineering work to grade and improve the parcel, with the plan of commencing construction such that the first building offering classes can open in fall 2011 at the Fallbrook Education site. The new site will provide additional student access and is expected to help Palomar College meet its increasing enrollment demands.

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, 2007**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 159,957,622
Investments	722,360
Accounts receivable, net	12,586,364
Due from fiduciary funds	57,225
Prepaid expenses	<u>584,453</u>
Total current assets	<u>173,908,024</u>

Non-current assets:

Restricted cash and cash equivalents	6,479,352
Capitalized fees	1,555,141
Capital assets, net of accumulated depreciation	<u>97,587,345</u>
Total non-current assets	<u>105,621,838</u>

**TOTAL ASSETS**

\$ 279,529,862

**LIABILITIES**

Current liabilities:

Accounts payable	\$ 4,195,498
Accrued liabilities	2,482,791
Deferred revenue	1,216,333
Due to fiduciary funds	6,132
Compensated absences	2,948,211
Accrued interest payable	1,249,005
Capital leases - current portion	69,720
COP payable - current portion	310,000
Revenue bonds payable - current portion	65,000
General obligation bonds payable - current portion	<u>2,000,000</u>
Total current liabilities	<u>14,542,690</u>

Non-current liabilities:

Capital leases	72,496
COP payable	4,985,000
Revenue bonds payable	2,705,000
General obligation bonds payable, including premium	<u>164,094,673</u>
Total non-current liabilities	<u>171,857,169</u>

**TOTAL LIABILITIES**

186,399,859

**NET ASSETS**

Invested in capital assets, net of related debt	44,655,252
Restricted for:	
Capital projects	11,333,692
Debt service	5,262,905
Other special services	5,759,511
Unrestricted	<u>26,118,643</u>
<b>TOTAL NET ASSETS</b>	<u>93,130,003</u>

**TOTAL NET ASSETS**

**TOTAL LIABILITIES AND NET ASSETS**

\$ 279,529,862

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, 2007**

<b>OPERATING REVENUES</b>	
Tuition and fees (gross)	\$ 14,785,297
Less: scholarship discounts & allowances	<u>(2,396,092)</u>
Net tuition and fees	<u>12,389,205</u>
Grants and contracts, non-capital:	
Federal	7,800,920
State	16,821,999
Local	<u>4,947,957</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>41,960,081</b></u>
<b>OPERATING EXPENSES</b>	
Salaries	73,850,286
Employee benefits	21,903,638
Supplies, materials, and other operating expenses and services	17,691,789
Financial aid	4,997,918
Utilities	1,919,643
Depreciation	<u>2,424,634</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>122,787,908</b></u>
<b>OPERATING LOSS</b>	<u><b>(80,827,827)</b></u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
State apportionments, non-capital	31,600,273
Local property taxes	49,835,336
State taxes and other revenue	3,445,584
Interest and investment income	1,917,995
Transfers in from fiduciary funds, net	155,644
Debt service	<u>(1,638,151)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u><b>85,316,681</b></u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<u><b>4,488,854</b></u>
<b>OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	
State apportionments, capital	13,464,935
Local property taxes and revenue, capital	1,066,899
Interest and investment income, capital	<u>1,240,016</u>
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<u><b>15,771,850</b></u>
<b>INCREASE IN NET ASSETS</b>	<b>20,260,704</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u><b>72,869,299</b></u>
<b>NET ASSETS - END OF YEAR</b>	<u><u><b>\$ 93,130,003</b></u></u>

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$ 12,080,300
Federal grants and contracts	7,714,342
State grants and contracts	16,038,872
Local grants and contracts	5,344,292
Payments to suppliers	(19,537,706)
Payments to/on-behalf of employees	(95,034,838)
Payments to/on-behalf of students	(4,994,661)
Net amounts due to fiduciary funds	<u>143,794</u>
Net cash used by operating activities	<u>(78,245,605)</u>

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

State apportionments and receipts	30,321,449
Property taxes	49,835,336
Grants and gifts for other than capital purposes	2,798,353
Net transfers from fiduciary funds	<u>149,740</u>
Net cash provided by non-capital financing activities	<u>83,104,878</u>

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

State apportionment for capital purposes	17,222,993
Interest on capital investments	224,515
Property taxes - capital	1,066,899
Proceeds from issuance of general obligation bond	166,094,673
Bond issue costs	(1,555,141)
Purchase of capital assets	(55,773,034)
Principal paid on capital debt	(427,042)
Interest paid on capital debt	<u>(392,584)</u>
Net cash provided by capital and related financing activities	<u>126,461,279</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments	1,555,987
Purchase of investments	(722,360)
Sale of investments	<u>737,869</u>
Net cash provided by investing activities	<u>1,571,496</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 132,892,048

**CASH BALANCE - BEGINNING OF YEAR** 33,544,926

**CASH BALANCE - END OF YEAR** \$ 166,436,974

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2007**

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

**CASH USED BY OPERATING ACTIVITIES**

Operating loss	\$ (80,827,827)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	2,424,634
Changes in assets and liabilities:	
Receivables, net	(840,235)
Due to fiduciary funds (net)	143,795
Prepaid expenses	301,211
Accounts payable and accrued liabilities	144,167
Deferred revenue	53,135
Compensated absences	<u>355,515</u>
Net cash used by operating activities	<u>\$ (78,245,605)</u>

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2007**

**ASSETS**

Cash in county treasury	\$	1,596,147
Cash on hand and in banks		146,027
Cash collections awaiting deposit		7,417
Accounts receivable:		
Miscellaneous		57,989
Due from governmental funds		<u>6,132</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>1,813,712</u></b>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$	5,484
Due to governmental funds		57,225
Deferred revenue		42,039
Amounts held for others		<u>100,671</u>
<b>TOTAL LIABILITIES</b>		<b><u>205,419</u></b>

**NET ASSETS**

Undesignated		<u>1,608,293</u>
<b>TOTAL NET ASSETS</b>		<b><u>1,608,293</u></b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b><u>1,813,712</u></b>
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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, 2007**

**ADDITIONS**

Interest and investment income	\$ 90,161
Other local revenues	<u>729,537</u>
<b>TOTAL ADDITIONS</b>	<u>819,698</u>

**DEDUCTIONS**

Supplies and materials	10,779
Other operating expenses and services	39,290
Other transfers out	<u>439,707</u>
<b>TOTAL DEDUCTIONS</b>	<u>489,776</u>

Excess of additions over deductions	<u>329,922</u>
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**OTHER SOURCES (USES)**

Transfers in from governmental funds	35,000
Transfers out to governmental funds	<u>(190,644)</u>
<b>TOTAL OTHER SOURCES (USES)</b>	<u>(155,644)</u>

<b>CHANGE IN NET ASSETS</b>	174,278
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<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,434,015</u>
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<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 1,608,293</u></u>
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See the accompanying notes to the financial statements.



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**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, 2007**

**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, 2007**

**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, 2007**

**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, 2007, 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, 2007**

**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. Capitalized Fees**

Amounts paid for fees and underwriting costs associated with long-term debt are capitalized and amortized to interest expense in the government-wide statements over the life of the liability. These costs are amortized using the straight-line method.

**6. 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

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

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

7. Accounts Payable – Accrued Interest Payable

Accounts payable consists of amounts due to vendors and accrued interest on the general obligation bonds.

8. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable.

9. 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.

10. 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, 2007**

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

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

**11. 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.

**12. 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 2008 will be recorded in the year computed by the State.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

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

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

**13. 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.

**14. 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 \$796,000 for STRS.



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

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

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

**15. 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.

**16. 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, 2007**

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

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

17. 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, 2007, \$687,911 of the District's bank balance of \$850,497 was exposed to credit risk as follows:

Collateral held by pledging bank's trust department but not specifically in the District's name	\$687,911
--	-----------

**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, 2007, as provided by the pool sponsor, was \$165,679,648. 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, 2007**

**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, 2007.

Investments at June 30, 2007 are in internal investment pools and are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard &amp; 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		129	
First American Treasury Obligation		<u>294</u>	
Total		<u>\$ 722,360</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, 2007**

**NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)**

**B. 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, 2007 consists of the following:

Federal and State	\$ 7,241,666
Miscellaneous	<u>5,344,698</u>
	<u>\$12,586,364</u>

**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, 2007

### NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>June 30, 2007</u>
<u>Capital Assets</u>				
Land and improvements	\$15,622,795	\$40,198,004	\$	\$ 55,820,799
Site and site improvements	25,331,751	630,824		25,962,575
Equipment	14,015,676	1,728,585	(657,977)	15,086,284
Construction in progress	<u>23,479,250</u>	<u>14,423,446</u>	<u>(1,207,825)</u>	<u>36,694,871</u>
Total cost	<u>78,449,472</u>	<u>56,980,859</u>	<u>(1,865,802)</u>	<u>133,564,529</u>
<u>Accumulated Depreciation</u>				
Land improvements	(9,469,726)	(792,538)		(10,262,264)
Site and site improvements	(12,872,673)	(559,256)		(13,431,929)
Equipment	<u>(11,868,128)</u>	<u>(1,072,840)</u>	<u>657,977</u>	<u>(12,282,991)</u>
Total accumulated depreciation	<u>(34,210,527)</u>	<u>(2,424,634)</u>	<u>657,977</u>	<u>(35,977,184)</u>
Net capital assets	<u>\$44,238,945</u>	<u>\$54,556,225</u>	<u>\$(1,207,825)</u>	<u>\$ 97,587,345</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>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007-08	\$ 69,720	\$ 4,935	\$ 74,655
2008-09	<u>72,496</u>	<u>2,159</u>	<u>74,655</u>
Total	<u>\$142,216</u>	<u>\$ 7,094</u>	<u>\$149,310</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, 2007**

**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:

<b><u>Fiscal Year</u></b>	<b><u>Lease Payment</u></b>
2007-08	\$281,111
2008-09	<u>284,829</u>
Total	<u>\$565,940</u>

Current year expenditures for operating leases is approximately \$255,500. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

**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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)**

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

<u>Lease Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
October 1, 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
October 1, 2011	365,000	91,536	456,536
April 1, 2012		83,688	83,688
10/1/2012 - 4/1/2017	1,640,000	521,673	2,161,673
10/1/2017 - 4/1/2020	<u>1,965,000</u>	<u>186,735</u>	<u>2,151,735</u>
Total	<u>\$5,295,000</u>	<u>\$1,727,920</u>	<u>\$7,022,920</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**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 Payments</u>
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
October 1, 2011		64,295	64,295
April 1, 2012	75,000	64,295	139,295
10/1/2012 - 4/1/2017	335,000	479,172	814,172
10/1/2017 - 4/1/2022	525,000	214,450	739,450
10/1/2022 - 4/1/2027	680,000	628,020	1,308,020
10/1/2027 - 4/1/2031	<u>880,000</u>	<u>139,914</u>	<u>1,019,914</u>
Total	<u>\$2,770,000</u>	<u>\$2,133,082</u>	<u>\$4,903,082</u>



# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

### NOTE 9 – GENERAL OBLIGATION BONDS:

On November 7, 2006, the District voters authorized the issuance and sale of general obligation bonds totaling \$694,000,000. Proceeds from the sale of the bonds will be used to finance certain projects of the District and to pay all necessary legal, financial, engineering and contingent costs. On May 2, 2007, the District issued General Obligation Bonds, Election of 2006, Series A of \$160,000,000 of current interest bonds. Interest ranges from 4.25% to 5.00% payable semiannually on May 1 and November 1.

The outstanding bonded debt for Palomar Community College District at June 30, 2007 is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2006	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2007
2006A	5/2/2007	4.25 % - 5.0%	2032	\$ 160,000,000	\$	\$ 160,000,000	\$	\$ 160,000,000
				<u>\$ 160,000,000</u>	<u>\$ -</u>	<u>\$ 160,000,000</u>	<u>\$ -</u>	<u>160,000,000</u>
						Bond Premium*		<u>6,094,673</u>
						Total Bonds Payable		<u>\$ 166,094,673</u>

\* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series A bonds included a premium of \$6,094,673. This amount is amortized using the straight-line method. No amortization was recognized during the 2006-07 year.

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2007, are as follows:

June 30,	Principal	Interest	Total
2008	\$ 2,000,000	\$ 7,546,566	\$ 9,546,566
2009	6,250,000	7,482,588	13,732,588
2010	1,905,000	7,201,338	9,106,338
2011	2,315,000	7,120,375	9,435,375
2012	2,455,000	7,027,775	9,482,775
2013-2017	17,125,000	33,212,925	50,337,925
2018-2022	27,595,000	27,994,250	55,589,250
2023-2027	41,365,000	20,021,800	61,386,800
2028-2032	<u>58,990,000</u>	<u>8,790,113</u>	<u>67,780,113</u>
	<u>\$ 160,000,000</u>	<u>\$ 126,397,730</u>	<u>\$ 286,397,730</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

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

A schedule of changes in long-term debt for the year ended June 30, 2007 is shown below:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due in One Year
Capital leases	\$ 209,258	\$	\$ (67,042)	\$ 142,216	\$ 69,720
Certificates of participation (COP)	5,595,000		(300,000)	5,295,000	310,000
Revenue bonds	2,830,000		(60,000)	2,770,000	65,000
General obligation bonds		166,094,673		166,094,673	2,000,000
	<u>\$ 8,634,258</u>	<u>\$ 166,094,673</u>	<u>\$ (427,042)</u>	<u>\$ 174,301,889</u>	<u>\$ 2,444,720</u>

**NOTE 11 - EMPLOYEE RETIREMENT PLANS:**

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

**State Teachers' Retirement System (STRS)**

**Plan Description**

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

**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 2006-07 was 8.25% 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, 2007**

**NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)**

**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 obtain 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 2006-07 was 9.124% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

**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>
2005	\$2,776,507	100%	\$2,029,623	100%
2006	2,991,233	100%	2,021,347	100%
2007	3,257,277	100%	2,202,417	100%

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

#### **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 2006-07, the District paid \$3,230,549 for retiree benefits. In addition, the General Fund contributed \$5,272,632 toward the payment of the actuarial liability by transferring funds to the Retiree Benefit Fund. The District has budgeted \$3,506,531 for these benefits in 2007-08.

#### **NOTE 13 - JOINT POWERS AGREEMENT:**

The Palomar Community College District participates in four joint powers agreement (JPA) entities; the San Diego County Schools Fringe Benefits Consortium (SDCSFBC); the Statewide Association of Community Colleges (SWACC); the Schools Association for Excess Risk (SAFER) and the Community College League's Retiree Health Benefit JPA. 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

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

The Schools Association for Excess Risk arranges for and provides a self-funded or additional insurance for excess liability coverage to various school districts and community college districts throughout California.

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.

The Community College League's Retiree Health Benefit Program JPA was created to assist districts in responding to the GASB No. 45 accounting standards, which require districts to either fully fund retiree health benefit costs for current and retired employees or acknowledge, in their annual financial statements, their unfunded liability. The JPA also provides investment trusts for its members to meet their long-term retiree health benefits liability. The District is expected to begin investing in the trust upon completion of its second actuarial study in conjunction with approval of the plan, which has to be in effect by July 1, 2008 on how the District will address the unfunded liability.

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

	SDCSFBC 6/30/2007 <u>(Unaudited)</u>	SWACC 6/30/2007 <u>(Audited)</u>	SAFER 6/30/2006 <u>(Audited)</u>
Total assets	\$ 9,395,851	\$35,927,403	\$ 2,262
Total liabilities	<u>4,737,610</u>	<u>18,039,163</u>	<u>          </u>
Retained earnings	\$ <u>4,658,916</u>	\$ <u>17,888,240</u>	\$ <u>2,262</u>
Total revenues	\$65,024,933	\$ 9,834,727	\$17,225,667
Total expenditures	<u>61,767,685</u>	<u>4,110,902</u>	<u>17,224,424</u>
Net change in retained earnings	\$ <u>3,257,248</u>	\$ <u>5,723,825</u>	\$ <u>1,243</u>

# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

### **NOTE 14 - FUNCTIONAL EXPENSE:**

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Financial Aid and Other Outgo	Depreciation	Total
Instructional	\$ 37,903,673	\$ 9,207,620	\$ 914,200	\$	\$	\$ 48,025,493
Academic Support	12,156,938	3,897,726	1,367,244			17,421,908
Student Services	10,823,417	2,994,683	691,475	2,409		14,511,984
Operation & Maintenance of Plant	2,945,494	1,127,644	833,027	41,871		4,948,036
Institutional Support	7,261,289	4,008,881	980,246	598,656		12,849,072
Community Services and Economic Development	89,770	5,282	2,580			97,632
Ancillary Services and Auxiliary Operations	2,669,705	661,802	279,073			3,610,580
Physical Property and Related Acquisitions			14,532,907			14,532,907
Transfers, Student Aid and Other Outgo			10,680	4,354,982		4,365,662
Depreciation Expense					2,424,634	2,424,634
Total	<u>\$ 73,850,286</u>	<u>\$ 21,903,638</u>	<u>\$ 19,611,432</u>	<u>\$ 4,997,918</u>	<u>\$ 2,424,634</u>	<u>\$ 122,787,908</u>

### **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, 2007, including principal and interest, is \$2,594,525.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE 15 - COMMITMENTS AND CONTINGENCIES: (continued)**

**C. Purchase Commitments**

As of June 30, 2007, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$2,700,000. Projects will be funded through Capital Outlay and Bond Funds.

**D. Litigation**

The District is currently involved in a multi-party lawsuit involving water damage in Parking Lot 12 and surrounding homes. The claim has been submitted to the college's insurance administrator. The parties have entered into a conditional settlement which includes construction of a comprehensive French drain system. Estimates for the drain system are being gathered and could cost in a range from \$450,000 to \$550,000. The cost of the drainage system is currently set to be shared between the college and its insurance administrator proportionally; however, this amount is yet to be determined and is pending actual cost of the system.

**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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE 16 - SUBSEQUENT EVENTS: (continued)**

**B. 2007 Fires**

In October 2007, several fires ravaged areas of San Diego County as a result of extreme Santa Ana winds and dry brush due to lack of any significant rains during the year. The fires did not cause any direct damage to the campus; however, several faculty, staff and students lost their homes during this tragic event. The Palomar College community through its Foundation raised in excess of \$50 thousand to help those affected by the fires. The college closed for the week with a skeleton staff of police, facilities, and senior administration personnel on campus throughout the week to ensure that the campus facilities were not adversely impacted by the fires. The District submitted a FEMA and insurance claim with its District Carrier for costs incurred as a result of the fires. The State issued a waiver for all Districts impacted by the fires; therefore, no impact on apportionment will be sustained as a result of the campus closure.



## **SUPPLEMENTARY INFORMATION**

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **HISTORY AND ORGANIZATION**

**June 30, 2007**

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>
Mark R. Evilsizer, M.A.	President	2010
Darrell L. McMullen, M.B.A.	Vice President	2008
Ruth Larson	Secretary	2008
Michele T. Nelson, Ph.D.	Trustee	2010
Nancy C. Chadwick, M.S.W., M.P.A.	Trustee	2008
Michelle Eichelberger	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 (Dean, July-April)
Norma Bean	Interim Dean, Arts, Media, Business and Computer Systems (May-June)
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 (July-December)
Candice Francis, Ed.D	Dean, Math and the Natural and Health Sciences (February-June)
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, 2007**

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number *</u>	<u>Total Program Expenditures and Encumbrances</u>
<b>U.S. Department of Education</b>			
Student Financial Aid Cluster:			
SEOG	84.007	N/A	\$ 201,599
Administrative Allowance	84.063	N/A	21,025
Pell Grant	84.063	N/A	3,160,551
Federal Work Study	84.033	N/A	152,132
Direct Loans	84.268	N/A	807,283
Total Student Financial Aid Cluster			<u>4,342,590</u>
TRIO Cluster:			
Educational Opportunity Centers	84.066A	N/A	170,879
Student Support Services	84.042A	N/A	266,108
Upward Bound	84.047A	N/A	251,915
Total TRIO Cluster			<u>688,902</u>
Higher Education Act:			
Veterans Education	84.120	N/A	9,251
Gear-Up	84.334A	N/A	2,143,089
Total direct from U.S. Department of Education			<u>7,183,832</u>
Passed Through the California Department of Education (CDE):			
Vocational Technology Education Act:			
Leadership IIC	84.048	13920	357,964
ROP	84.048	N/A	57,041
Tech Prep	84.243	13929	66,574
Academic Competitiveness Grant	84.375A	N/A	6,800
Total passed through from U.S. Department of Education			<u>488,379</u>
Total U.S. Department of Education			<u>7,672,211</u>
<b>U.S. Department of Health and Human Services</b>			
Passed Through the California Department of Education (CDE):			
Temporary Assistance for Needy Families	93.558	N/A	56,538
Child Development Training Consortium	93.575	13967	26,924
Total U.S. Department of Health and Human Services			<u>83,462</u>
<b>U.S. Department of Agriculture</b>			
Pass Through the California Department of Education (CDE):			
Child Nutrition	10.555	03755	45,247
Total U.S. Department of Agriculture			<u>45,247</u>
<b>Total Federal Programs</b>			<u><u>\$ 7,800,920</u></u>

\* 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, 2007**

Program Name	Program Revenues				Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income	Total	
State Categorical Aid Programs:					
Apprentice Allowance	\$ 1,230,173	\$	\$	\$ 1,230,173	\$ 1,230,173
Associate Nursing Degree Grant	141,183		72,931	68,252	68,252
Basic Skills	944,879		943,647	1,232	1,232
BFAP	528,178			528,178	528,178
Block Grant - Instructional Materials	1,114,532		242,886	871,646	871,646
CalWORKS	343,223		7,082	336,141	336,141
California Articulation Number System	5,000			5,000	5,000
Capacity Building Nursing Grant	252,283			252,283	252,283
Career Tech ED EQP	695,608		146,388	549,220	549,220
CCC Satellite Network	52,300	1,620,073		1,672,373	1,672,373
Cooperative Agencies Resources for Education	126,448		530	125,918	125,918
Department of Education Interpreters	12,362		354	12,008	12,008
Disabled Student Programs and Services	1,217,368		66,021	1,151,347	1,151,347
Education Network Grant	1,240	409		1,649	1,649
Extended Opportunity Programs & Services	1,163,294		6,711	1,156,583	1,156,583
Faculty Work Experience	50,000		50,000	-	-
GIS/GPS Quickstart P-Ships	309,016		240,941	68,075	68,075
Instructional Equipment Outgoing		783		783	783
Lottery Prop 20 - Instructional Materials	1,434,955	496,339		1,931,294	1,931,294
Matriculation	1,561,849			1,561,849	1,561,849
Part-Time Faculty	838,297			838,297	838,297
Staff Development and Training	87,414		87,414	-	-
Staff Diversity	15,525			15,525	15,525
Telecommunications and Technology	25,944	8,995		34,939	34,939
TTIP E-Conferencing	1,906,084	181,877		2,087,961	2,087,961
Total State Programs	\$14,057,155	\$2,308,476	\$1,864,905	\$14,500,726	\$14,500,726

See the accompanying notes to the supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT  
ANNUAL (ACTUAL) ATTENDANCE  
For the Fiscal Year Ended June 30, 2007**

	<u>Reported Data<sup>2</sup></u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
<b>A. Summer Intersession (Summer 2006 only)</b>			
1. Noncredit <sup>1</sup>	266.98		266.98
2. Credit	1,214.24		1,214.24
<b>B. Summer Intersession (Summer 2007 - Prior to July 1, 2007)</b>			
1. Noncredit <sup>1</sup>	23.06		23.06
2. Credit	507.55		507.55
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	12,519.01		12,519.01
(b) Daily Census Contact Hours	1,083.42		1,083.42
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit <sup>1</sup>	1,296.85		1,296.85
(b) Credit	533.19		533.19
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,327.07		1,327.07
(b) Daily Census Contact Hours	635.07		635.07
(c) Noncredit Independent Study/Distance Education Courses	-		-
<b>D. Total FTES</b>	<u>19,406.44</u>		<u>19,406.44</u>
<b>Supplemental Information (subset of above information)</b>			
E. In-Service Training Courses (FTES)	102.58		
<b>H. Basic Skills Courses and Immigrant Education</b>			
(a) Noncredit <sup>1</sup>	895.79		
(b) Credit	784.56		
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	524.03		
<b>Centers FTES</b>			
(a) Noncredit <sup>1</sup>	167.30		
(b) Credit	1,458.10		

<sup>1</sup> Including Career Development and College Preparation (CDCP) FTES

<sup>2</sup> Includes factored FTES for State residents.

See the accompanying notes to the supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET**  
**REPORT WITH AUDITED FUND BALANCES**  
**For the Fiscal Year Ended June 30, 2007**

	<u>Capital Outlay Fund</u>
June 30, 2007 Annual Financial and Budget Report Fund Balance (CCFS-311)	<u>\$10,531,869</u>
Adjustments and Reclassifications:	
Understatement of cash with fiscal agent	945,361
Overstatement of accounts receivable	(212,655)
Overstatement of accounts payable	<u>69,117</u>
Net Adjustments and Reclassifications	<u>801,823</u>
June 30, 2007 Audited Fund Balance	<u>\$11,333,692</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 reflected an ending fund balance of \$144,081 on the CCFS-311; of this amount, \$100,671 is shown as funds held in trust lending an ending fund balance of \$43,410.

See the accompanying notes to the supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF GENERAL FUND FINANCIAL TRENDS AND ANALYSIS**  
**For the Fiscal Year Ended June 30,**

	<u>(Budget) 2008</u>		<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b><u>GENERAL FUND:</u></b>								
<b><u>Revenue</u></b>								
Federal	\$ 4,632,188	3.90	\$ 3,554,041	3.04	\$ 2,792,482	2.53	\$ 2,662,575	2.64
State	49,482,415	41.68	51,016,426	43.62	38,300,150	34.74	37,543,509	37.21
County and local	65,860,197	55.48	67,770,239	57.94	66,419,787	60.24	61,171,666	60.62
Total revenue	<u>119,974,800</u>	<u>101.06</u>	<u>122,340,706</u>	<u>104.60</u>	<u>107,512,419</u>	<u>97.51</u>	<u>101,377,750</u>	<u>100.47</u>
<b><u>Expenditures</u></b>								
Academic salaries	45,447,138	38.28	45,135,069	38.59	41,217,378	37.38	40,052,472	39.70
Classified salaries	30,164,519	25.41	27,955,572	23.90	25,310,109	22.95	23,784,103	23.57
Employee benefits	24,073,078	20.28	21,747,502	18.59	17,131,005	15.54	16,913,521	16.76
Supplies and materials	1,812,120	1.53	2,313,006	1.98	2,119,512	1.92	1,780,357	1.76
Other operating expenses & services	13,868,927	11.68	12,797,905	10.94	11,531,564	10.46	11,225,015	11.12
Capital outlay	2,045,625	1.72	3,722,616	3.18	2,974,866	2.70	2,860,954	2.84
Other uses (net)	1,305,292	1.10	3,293,671	2.82	9,974,264	9.05	4,284,427	4.25
Total expenditures	<u>118,716,699</u>	<u>100.00</u>	<u>116,965,341</u>	<u>100.00</u>	<u>110,258,698</u>	<u>100.00</u>	<u>100,900,849</u>	<u>100.00</u>
Change in fund balance	<u>\$ 1,258,101</u>	<u>1.06</u>	<u>\$ 5,375,365</u>	<u>4.60</u>	<u>\$ (2,746,279)</u>	<u>(2.49)</u>	<u>\$ 476,901</u>	<u>0.47</u>
Ending fund balance	<u>\$ 19,118,619</u>	<u>16.10</u>	<u>\$ 17,860,518</u>	<u>15.27</u>	<u>\$ 12,485,153</u>	<u>11.32</u>	<u>\$ 15,231,432</u>	<u>15.10</u>
Full-time equivalent students	<u>19,402</u>		<u>19,406</u>		<u>19,157</u>		<u>19,853</u>	
Total long-term debt	<u>\$ 171,857,169</u>		<u>\$ 174,301,889</u>		<u>\$ 8,634,258</u>		<u>\$ 9,060,732</u>	

**IMPORTANT NOTES:**

All percentages are of total expenditures excluding 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 2005, 2006, 2007 and Budget (2008) 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, 2007**

**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, 2007 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 State General Apportionment**

The Schedule of Workload Measures for State General Apportionment 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

We have audited the financial statements of the Palomar Community College District (the District) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

**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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-1, 07-2, and 07-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that any of the significant deficiencies 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Palomar Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

**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**

This report is intended solely for the information and use of management, the Board, 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 30, 2007



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

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

Compliance

We have audited the compliance of Palomar Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The 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 the District's management. Our responsibility is to express an opinion on the 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 the 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 of the District's compliance with those requirements.

In our opinion, the 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, 2007.

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

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was to the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board, 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 30, 2007

## **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, 2007, and have issued our report thereon dated November 30, 2007.

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 2007 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 Gann Limit Calculation was properly calculated and supported by adequate documentation.
- Whether the District is reporting the total amount that students should have paid for enrollment fees for the purpose of determining the District's share of annual apportionment.
- Whether the District expended CalWORKS program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKS students.
- Whether the District spent an amount equal to or greater than the amount provided by the State for scheduled maintenance and special repairs. Funds provided by the State must be to supplement, not supplant, District scheduled maintenance funds. The amount expended for plant maintenance and operations during the base year of 1995-96 was \$3,447,456.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.
- 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.

In our opinion, Palomar Community College District complied with the compliance requirements for the state programs listed and tested above. Nothing came to our attention as a result of the aforementioned procedures to indicate that Palomar Community College District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

## REPORT ON STATE COMPLIANCE

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 management, the Board, 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 30, 2007



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**SUMMARY OF AUDITOR RESULTS**  
**June 30, 2007**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Significant deficiencies 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

Significant deficiencies identified not considered  
to be material weaknesses?        Yes   X   None reported

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

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

*Identification of Major Programs Tested*

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063 and 84.268	Student Financial Assistance Cluster of Programs
84.042A, 84.066A and 84.047A	TRIO Cluster
84.334A	GEAR-UP

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, 2007**

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 correction action plan.

**FINDING 07-1 – INTERNAL CONTROLS**

**Original Finding 05-2**

**Finding:** A comprehensive listing of all fixed assets meeting the capitalization criteria is not maintained. We noted recently completed buildings and site improvements had not been included. In addition, a newly purchased piece of equipment was overlooked in the tagging process and was not included in the equipment inventory.

**Recommendation:** Review the process for updating the fixed asset listings and determine responsibility for maintaining an up to date listing of buildings and site improvement.

**District Response:** Although not all of the assets are currently in the Vertere asset system, all assets are accounted for correctly via a spreadsheet. Additional personnel have been added to the effort to bring up to date the fixed asset information in the system and maintain the software so that the information is readily available as of June 30, 2008.

**FINDING 07-2 – STUDENT ACCOUNTS RECEIVABLE**

**Original Finding 06-2**

**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 \$3,063,900 in student accounts receivable, whereas the general ledger balance was approximately \$625,000.

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

**District Response:** The general ledger reflects an amount that is considered reasonably collectable from students. However, no receivables have been written off in the student system in case a student returns to the District in a future semester. The District has established a task force and assigned additional personnel to the effort of reconciling student receivables and the corresponding general ledger accounts. This is viewed as a long term process which may be impacted by the upgrade to the PeopleSoft Student system planned for May 2008.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**FINDING 07-3 – CASH DISBURSEMENTS**

**Finding:** During our testing of the cash disbursements process we noted the following deficiencies:

- Proper supporting documentation (credit card receipts) was missing for 3 of 96 charges tested.
- Warrant documents could not be located for three transactions selected for testing. Two warrants were for CalWORKS expenditures (\$1,320 and \$185.20). The third was a payment in the amount of \$80.92.
- The computer system does not require passwords to be changed, especially for those who approve cash disbursement warrants.
- The District does not have an approved vendor list from which to conduct business. By not having such a list, the District's risk of fraud is increased due to the potential of paying a vendor that does not exist for services not performed. It also increases the risk of a conflict of interest by using a vendor related to District personnel.

**Recommendation:** We recommend the following:

- Require each department with credit cards to maintain adequate and thorough documentation for all charges to their credit cards. In addition, match receipts to the credit card statement on a monthly basis and maintain for an adequate audit trail.
- File documentation timely or have a designated secure place for unfiled documents for ease of access so they are available for audit.
- Consult with the Information Technology Department about implementing a process to require all employees to change their passwords a minimum of twice a year.
- Develop an accurate listing of vendors and limit purchases to vendors on this list, unless extenuating circumstances exist. In addition, all approved vendors should be reviewed against the Federal government's listing of suspended and debarred vendors.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**FINDING 07-3 – CASH DISBURSEMENTS**  
**(continued)**

**District Response:**

- The District has established policies for credit card receipts that indicate they are to be held in the departments initiating the charges. Through reorganization a full time Internal Auditor position has been established for the District. The internal auditor will be reviewing the current procedures that the departments are following to retain the receipts.
- Accounts Payable has had several changes in staff during the past year but will continue the endeavor to file documentation in a timely manner and will establish a secure area for unfiled documents.
- The internal auditor will work with the Information Systems department to review our policies and procedures for requiring passwords to be changed periodically.
- Currently, there is no approved vendor list. The internal auditor will be working with the Business Services department to review this policy.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FEDERAL AWARDS**  
**June 30, 2007**

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2007.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2007**

Prior Year Finding No.	Finding	Recommendation	Current Status
06-1	<p><b><u>INTERNAL CONTROLS</u></b></p> <p><b>Original Finding 05-2</b></p> <p>We noted the following weaknesses in the District's internal controls:</p> <ul style="list-style-type: none"> <li>Journal entry documentation for some entries tested was incomplete (6 from a sample of 17).</li> <li>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.</li> </ul>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	<p>Implemented for journal entry documentation; not implemented for fixed assets. See current year finding 07-1.</p>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2007**

<u>Prior Year Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
06-2	<p><b><u>STUDENT ACCOUNTS RECEIVABLE</u></b></p> <p>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.</p>	<p>The District should maintained a listing of accounts receivable that agrees to or is reconciled to the general ledger balance.</p>	<p>Not implemented. See current year finding 07-2.</p>
06-3	<p><b><u>STATE COMPLIANCE (ALLOCATION OF COSTS)</u></b></p> <p>Per the State Contracted District Audit Manual, employees that are providing services that are allocated between Extended Opportunity Programs &amp; Services (EOPS) and Disabled Students Programs &amp; 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.</p>	<p>The District should maintain the appropriate documentation to support the allocation of costs between programs for those employees charged.</p>	<p>Implemented.</p>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2007**

<b>Prior Year Finding No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<b><u>NON-CREDIT COURSES</u></b>			
06-4	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.	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.	Implemented.
<b><u>SINGLE COST OBJECTIVE EMPLOYEES</u></b>			
<b>Federal Programs: VTEA Tech Prep and VTEA Leadership IIC</b> <b>Federal Catalog No.: 84.243 and 84.048</b> <b>Compliance Requirement: B. Allowable Costs/Cost Principals</b>			
06-5	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.	Develop procedures to ensure that after-the-fact documentation is completed for those employees whose salaries are charged to a single cost objective.	Substantially implemented.