

PALOMAR COMMUNITY COLLEGE DISTRICT

SAN DIEGO COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2008**



PALOMAR COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2008

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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, 2008 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, 2008, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008 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 basic financial statements. The supplementary section is presented for purposes of additional analysis and is 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.

A handwritten signature in blue ink, reading "Vicenti, Lloyd & Stutzman LLP".

VICENTI, LLOYD & STUTZMAN LLP

December 9, 2008

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

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, 2008. 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 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.

The College

The California Community Colleges system is comprised of 72 districts, 111 campuses, and 66 approved Educational Centers. Palomar College is one of eight Community College districts located in San Diego County. Palomar College currently operates a campus in the City of San Marcos, an approved Educational Center in the City of Escondido, and six outreach sites throughout north San Diego County in the following communities: Rancho Peñasquitos, Fallbrook, Ramona, Pauma Valley, Borrego Springs, and Camp Pendleton. In addition, the District has received approval for its North Educational Center which is currently under development in the northern part of its geographical boundaries.

The Palomar College District serves more than 32,000 full-time and part-time students each fall and spring semester, while about 15,000 students attend during summer semester. Approximately 26 percent of our students are enrolled full-time, while about 56 percent are enrolled part-time in credit classes, and 18 percent are enrolled in non-credit classes. About 55% of our students are aged 18 through 24, while 45% are 24 or older.

Palomar College is currently offering over 300 Associate Degree and Certificate programs; in addition, it is currently offering 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. The District is currently scheduled for an accreditation site visit in March 2009. It has completed and submitted its self study in preparation for the visit.

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Palomar has transfer agreements with the California State University and University of California systems, and our high-level coursework in transferable classes fully prepares our students for success at four-year colleges and universities.

The California Community College system offers the most affordable education among community colleges throughout the United States. California residents currently pay an enrollment fee of \$20 per credit. Out-of-state residents pay the enrollment fee plus tuition fees of \$179 per credit.

Financial and Enrollment Highlights

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

Each of these statements will be discussed and will include comparisons between the prior and current year, along with selected highlights.

The District completed construction on the Natural Science building on the San Marcos campus and opened for classes starting 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 was the first new instructional building to be constructed on the San Marcos campus in nearly 50 years. It was funded largely with monies received from the State's construction bonds.

Funds received from the first issuance of Proposition M bonds provided funding for several projects on the San Marcos campus, as well as the purchase and initial development of land for a North Educational Center. Also included are funds for the down payment on land for a South Educational Center. On July 12, 2007, the Palomar College Governing Board approved the purchase of approximately 83 acres for a future center located in the Fallbrook area northeast of the intersection of Interstate 15 and State Route 76. Subsequently, the board of Governors for the California Community Colleges approved Palomar's North Educational Center on September 8, 2008. The California Post-secondary Education Commission (CPEC) approved the Center on September 24, 2008. This location will enable the District to serve the expanding student population in the northern portion of the District. Adding this educational center will enable the District to increase its number of FTES served and will eventually qualify the District for over \$1 million in additional apportionment revenue.

PALOMAR COMMUNITY COLLEGE DISTRICT

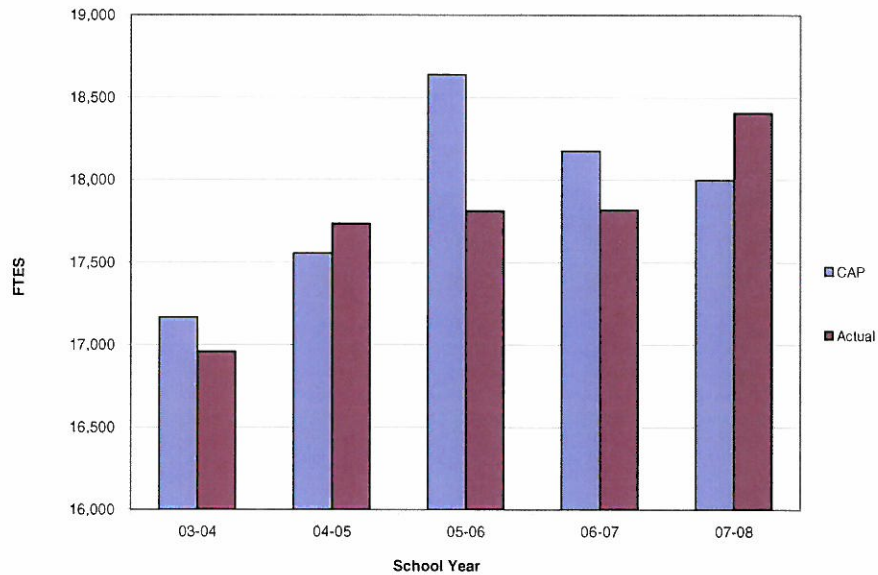
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

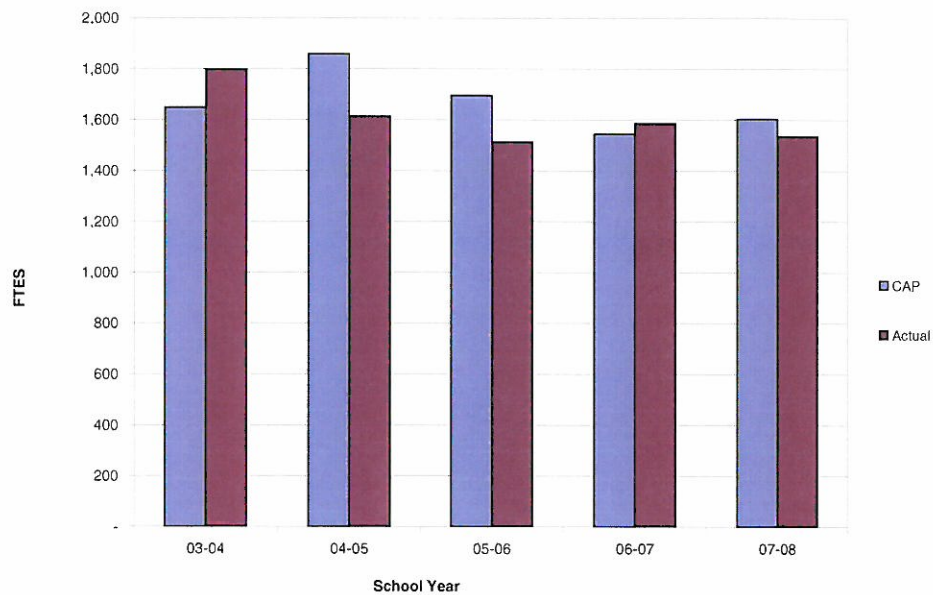
For fiscal year 2007-08 the District's total base full-time equivalent students (FTES) increased approximately 3.29% for credit and decreased 3.21% for non-credit courses for an overall increase of 2.76%. A District's "CAP" for the year represents a benchmark for growth that the State has determined it will fund throughout the Community College system. The amount a single District receives is contingent upon how much is budgeted by the State and how much growth is experienced both system and District-wide. The percentage of growth funded and how it is distributed can change several times during the fiscal year depending on various factors and is subject to any mid-year cuts made during the budget year. For these reasons not only does the District not assume growth in developing its budget but the comparisons of its FTES to CAP can vary depending on the time of year and which percentage the State is predicting its funding to be at that time. The final number for funded growth is not known at the District level until February of the year after the fiscal year has ended (in this case February 2009), which is when all the final numbers have been received and calculated system wide. For fiscal year 2007-08, the District's growth exceeded the credit "CAP" by 406.35 FTES and non-credit FTES were under "CAP" by 67.82 FTES. 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, 2008

**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, 2008

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, 2008

A Statement of Net Assets as of June 30, 2008 is summarized below:

	<i>(In Millions of Dollars)</i>	
	2007	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 160.0	\$ 156.8
Investments	0.7	0.7
Receivables	12.6	9.8
Prepaid expenses	0.6	0.3
Capitalized fees		0.1
Total current assets	<u>173.9</u>	<u>167.7</u>
Non-current assets:		
Restricted cash and cash equivalents	6.4	11.6
Capitalized fees	1.6	1.4
Capital assets, net	<u>97.6</u>	<u>103.8</u>
Total non-current assets	<u>105.6</u>	<u>116.8</u>
TOTAL ASSETS	<u>\$ 279.5</u>	<u>\$ 284.5</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6.7	\$ 9.9
Deferred revenue	1.2	1.0
Compensated absences	2.9	3.9
Long-term liabilities	<u>3.7</u>	<u>8.0</u>
Total current liabilities	<u>14.5</u>	<u>22.8</u>
Non-current liabilities:		
Long-term liabilities less current portion	<u>171.9</u>	<u>164.9</u>
Total non-current liabilities	<u>171.9</u>	<u>164.9</u>
TOTAL LIABILITIES	<u>186.4</u>	<u>187.7</u>
NET ASSETS		
Invested in capital assets, net of related debt	44.6	50.1
Restricted	22.4	24.9
Unrestricted	<u>26.1</u>	<u>21.8</u>
TOTAL NET ASSETS	<u>93.1</u>	<u>96.8</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 279.5</u>	<u>\$ 284.5</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

- Cash and cash equivalents decreased 2% over the prior year which is reflective of Prop M bond funds being spent down. 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. The decrease in this account of \$2.8 million is reflective of a State funded construction project being completed and grant monies that were received, which were offset by the June 2008 State apportionment that was not paid until 2008-09.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2008. Total current liabilities of \$22.8 million consist of the above mentioned accounts payable as well as other accrued liabilities and 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 \$8.3 million increase in total current liabilities includes \$1 million in additional labor related items, \$3 million in additional payments due for Proposition M construction expenditures, and the fact that the current portion of the long-term liability for the Prop M bond payments is much higher in 2008-09 than it was in 2007-08.
- The District currently has three debt issues outstanding that amount to \$171.6 million; \$4.9 million of this total is related to Certificates of Participation, \$2.7 million is related to Revenue Bonds and \$163.9 million is related to the new debt created by the General Obligation Bonds issued in May 2007 for Proposition M. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.

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.

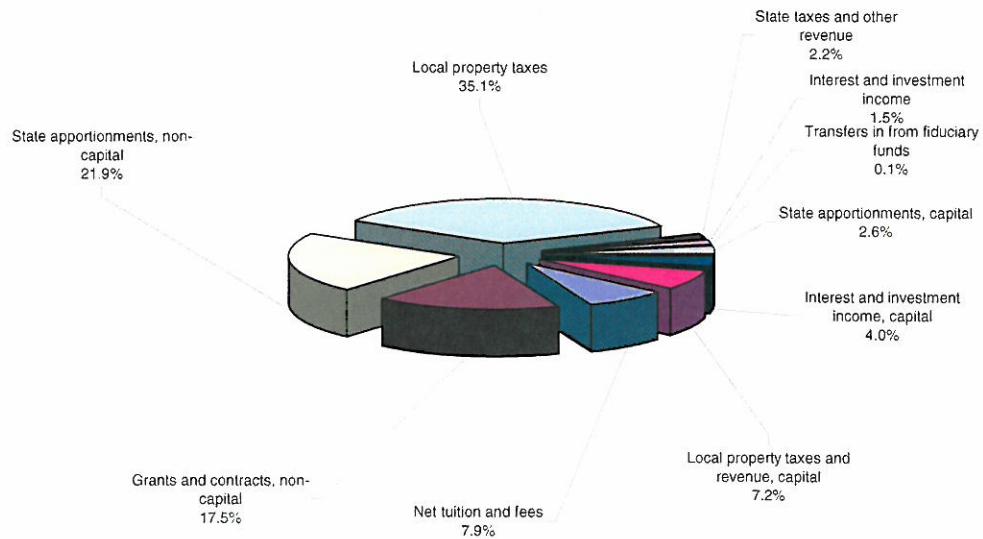
Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues earned and to fulfill the mission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

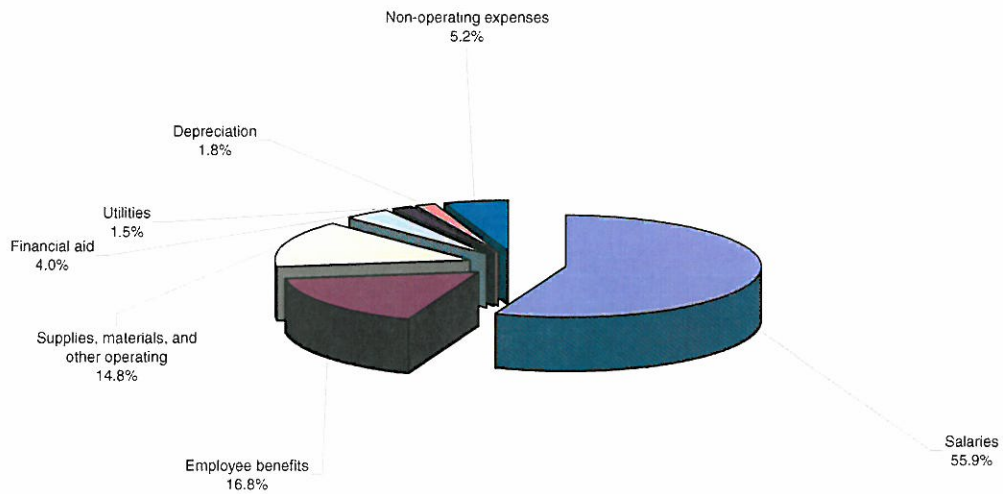
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**Palomar Community College District
Revenues
For the Year Ended June 30, 2008**



**Palomar Community College District
Expenses
For the Year Ended June 30, 2008**



PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

	<i>(In Millions of Dollars)</i>	
	<u>2007</u>	<u>2008</u>
Operating Revenue		
Net tuition and fees	\$ 12.4	\$ 11.9
Grants and contracts, non-capital	<u>29.5</u>	<u>26.4</u>
Total operating revenues	<u>41.9</u>	<u>38.3</u>
Operating Expenses		
Salaries and benefits	95.7	106.7
Supplies and other expenses	19.6	24.0
Financial aid	5.0	5.8
Depreciation	<u>2.4</u>	<u>2.6</u>
Total operating expenses	<u>122.7</u>	<u>139.1</u>
Operating Loss	<u>(80.8)</u>	<u>(100.8)</u>
Non-operating revenues (expenses)		
State apportionments, non-capital	31.6	33.0
Local property taxes	49.8	52.6
State taxes and other revenue	3.4	3.3
Interest and investment income	1.9	2.3
Transfers, net	0.2	0.2
Other non-operating expenses, net	<u>(1.6)</u>	<u>(7.7)</u>
Total non-operating revenues (expenses)	<u>85.3</u>	<u>83.7</u>
Other revenues, expenses, gains or losses		
State apportionments, capital	13.5	3.9
Local property taxes, capital	1.1	10.8
Interest and investment income, capital	<u>1.2</u>	<u>6.1</u>
Total other revenues, expenses, gains or losses	<u>15.8</u>	<u>20.8</u>
Change in Net Assets	20.3	3.7
Net assets, beginning of year	<u>72.8</u>	<u>93.1</u>
Net assets, end of year	<u>\$ 93.1</u>	<u>\$ 96.8</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

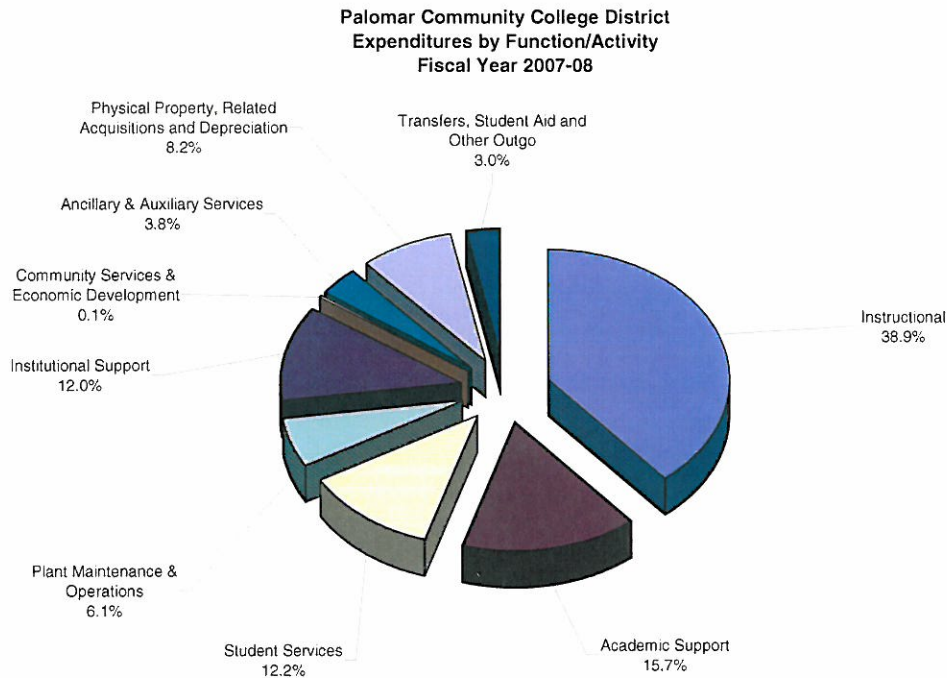
- Tuition and fees are generated by the resident, non-resident, and international students attending Palomar College, including fees such as health fees, parking fees, community services classes and other related fees.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program. One of the main reasons for the decrease was due to the fact that 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. This was not repeated for 2007-08.
- Total operating expenses increased in excess of 13% over the prior fiscal year. Personnel costs increased 11.5% of that total and made up 81% of the total operating expenses excluding depreciation and financial aid for all funds. During FY 2007-08 there was a 4.53% Cost of Living Adjustment (COLA) increase to the salaries and the corresponding benefits as well as an additionally negotiated 1.58% increase retroactive to July 1, 2006. 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. Prop M related expenditures accounted for most of the increases in these areas. As the first series of Prop M bonds were issued in late fiscal year 2006-07, the ramp up in expenditures started occurring in fiscal year 2007-08.
- 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. Even though there is a nationwide housing slump, property taxes in San Diego increased, although not as significantly as they have in the past.
- 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. The State apportionment money decreased significantly due to the completion of the Natural Science building. Local property taxes, capital increased significantly due to the assessment of taxes for the Prop M bond.
- 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 2007-08 is included in Note 14 of the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Activity	Code	2005-06 Total	% of Total	2006-07 Total	% of Total	2007-08 Total	% of Total
Instructional	01-59	\$ 44,513,975	39.9%	\$ 48,025,493	39.1%	\$ 54,111,711	38.9%
Academic Support	60-62	16,889,250	15.1%	17,421,908	14.2%	21,850,432	15.7%
Student Services	63-64	13,002,524	11.7%	14,511,984	11.8%	16,990,025	12.2%
Plant Maintenance & Operations	65	8,380,060	7.5%	4,948,036	4.0%	8,479,407	6.1%
Institutional Support	66-67	13,666,994	12.2%	12,849,072	10.5%	16,630,191	12.0%
Community Services & Economic Development	68	71,101	0.1%	97,632	0.1%	117,907	0.1%
Ancillary & Auxiliary Services	69-70	4,026,239	3.6%	3,610,580	2.9%	5,290,245	3.8%
Physical Property and Related Acquisitions	71	3,353,286	3.0%	16,957,541	13.8%	11,445,052	8.2%
Transfers, Student Aid and Other Outgo	72-73	7,742,162	6.9%	4,365,662	3.6%	4,229,840	3.0%
Total		\$ 111,645,591	100.0%	\$ 122,787,908	100.0%	\$ 139,144,810	100.0%



PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

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 provided by the operating activities of the District. The second part details cash received for non-operating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This 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 provided by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A Statement of Cash Flows for the fiscal year ended June 30, 2007 and 2008 is summarized and presented below:

	<i>(In Millions of Dollars)</i>	
	2007	2008
Cash Provided by (Used in)		
Operating activities	\$ (78.2)	\$ (95.9)
Non-capital financing activities	83.1	91.2
Capital and related financing activities	126.4	4.9
Investing activities	<u>1.6</u>	<u>1.7</u>
Net increase in cash and cash equivalents	132.9	1.9
Cash balance, beginning of year	<u>33.5</u>	<u>166.4</u>
Cash balance, end of year	<u>\$ 166.4</u>	<u>\$ 168.3</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

- 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.
- Additionally, the District received over \$1.2 million dollars of one-time funds in FY2006-07 when the State approved funding for State mandates, which covered several years of claims. Property taxes increased, but not as much as in previous years due to the slowdown in the housing market in San Diego. Apportionment and grants also increased by COLA. This increase in funding is what significantly contributed to the increase in non-capital financing activities.
- The primary amounts included in capital and related financing activities are any financing activities and the purchase of capital assets (building improvements and equipment). The Series A Prop M General Obligation Bonds were issued in May 2007 in the amount of \$160 million (which were offset by the purchase of raw land for approximately \$40 million) which accounts for the large amount in fiscal year 2006-07. No other series of bonds were issued in fiscal year 2007-08 which explains the large decrease between the two years.
- 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 and bank accounts.

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, 2008

Capital Asset and Debt Administration

Capital Assets

- As of June 30, 2008, the District had over \$103.8 million in net capital assets. Total capital assets of \$140 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 \$36.2 million. Depreciation expense of \$2.6 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 equipment additions were primarily the result of purchases made for technology items utilizing Prop M funds.
- Construction was completed on the Natural Science building and it was put into service in the 2007 fall semester. This explains the huge decrease in Construction in Progress and the corresponding increase in Site and Site Improvement.

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>2007</u>	<u>2008</u>
Land and Improvements	\$ 45.6	\$ 45.4
Site and Site Improvements	12.5	46.7
Equipment	2.8	4.4
Construction in Progress	<u>36.7</u>	<u>7.3</u>
Net Capital Assets	<u>\$ 97.6</u>	<u>\$ 103.8</u>

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Debt

At June 30, 2008, the District had \$171.6 million in debt; \$163.9 in General Obligations Bonds, \$0.1 million from capital lease obligations, \$4.9 million from Certificates of Participation and \$2.7 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 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 45 accounting standard requirements effective fiscal year 2008-09. See Notes 12 and 16 to the financial statements for additional information.

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

	<i>(In Millions of Dollars)</i>	
	<u>2007</u>	<u>2008</u>
Long-Term Debt		
Capital leases	\$ 0.1	\$ 0.1
COP payable	5.3	4.9
Revenue bonds payable	2.8	2.7
General obligation bond	<u>166.1</u>	<u>163.9</u>
Total long-term debt	174.3	171.6
Less current portion	<u>2.4</u>	<u>6.7</u>
Long-term portion	<u>\$ 171.9</u>	<u>\$ 164.9</u>

PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Economic Factors that May Affect the Future

The economic position of the District is closely tied to that of the State of California. There currently is a State projected shortfall of over \$27 billion predicted over the next two years. Mid-year cuts have been extensively discussed, along with increased taxes and student fees. At this time it is unclear how the State will resolve the structural deficit and the ultimate impact it will have on not only the Community College system, but the State wide economy. As unemployment continues to rise, more students are attending community colleges because of their affordability, along with the desire to increase the student's marketable skills. This creates growth opportunities for the colleges, but along with the opportunity to serve these students (not to mention the obligation that the colleges have to serve them) comes the challenge of serving these students without the growth in FTES being fully funded at the State level. The District is not alone in these challenges, but feels the pressure none the less.

One area where not receiving full funding for growth is a concern for the District is rising utility costs. Increasing utility rates, potential water shortages and rising electricity usages as new buildings are completed are areas that need to be monitored in the future. However, some of these costs would be mitigated if the District were to receive growth monies from the State for the corresponding increase in students served by the new buildings.

As mentioned earlier, housing valuations and sales continue to decline nationwide. Even though these same problems plague San Diego County, recent sales in the commercial sector have benefited the overall property tax valuation. The issue will be Statewide collections of property taxes, which negatively impacts the District if the shortfalls are not funded by the State.

For fiscal year 2008-09 the District built its budget based on cuts in all discretionary spending. The budget for fiscal year 2008-09 was adopted as a balanced budget, using a portion of the beginning fund balance to offset budgeted expenses in excess of budgeted revenues. However, depending on the State's situation and how it impacts Palomar via mid-year cuts the budget may need to be revisited to ensure that we maintain a balanced budget. As mentioned previously, the District takes a conservative approach to its budget and does not include growth revenue until it is actually funded and paid.

GASB 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 2008 based on GASB 45 in preparation for the development of a plan to address the unfunded retiree benefit liability for FY2008-09, which is the required deadline for Palomar to be in compliance with GASB 45.

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, 2008

ASSETS

Current assets:

Cash and cash equivalents	\$ 156,797,905
Investments	722,222
Accounts receivable, net	9,684,301
Due from fiduciary funds	135,737
Prepaid expenses	313,106
Capitalized fees	<u>62,601</u>

Total current assets	<u>167,715,872</u>
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Non-current assets:

Restricted cash and cash equivalents	11,566,159
Capitalized fees	1,429,939
Capital assets, net of accumulated depreciation	<u>103,829,377</u>

Total non-current assets	<u>116,825,475</u>
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TOTAL ASSETS	<u>\$ 284,541,347</u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 7,217,609
Accrued liabilities	2,675,679
Deferred revenue	1,008,979
Due to fiduciary funds	5
Compensated absences	3,902,649
Accrued interest payable	1,337,547
Capital leases - current portion	72,496
COP payable - current portion	325,000
Revenue bonds payable - current portion	65,000
General obligation bonds payable - current portion	<u>6,250,000</u>

Total current liabilities	<u>22,854,964</u>
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Non-current liabilities:

COP payable	4,660,000
Revenue bonds payable	2,640,000
General obligation bonds payable, including premium	<u>157,600,886</u>

Total non-current liabilities	<u>164,900,886</u>
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TOTAL LIABILITIES	<u>187,755,850</u>
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NET ASSETS

Invested in capital assets, net of related debt	50,109,509
Restricted for:	
Capital projects	10,755,978
Debt service	5,823,844
Other special services	8,312,357
Unrestricted	<u>21,783,809</u>

TOTAL NET ASSETS	<u>96,785,497</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 284,541,347</u>
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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, 2008

OPERATING REVENUES

Tuition and fees (gross)	\$ 14,119,253
Less: scholarship discounts & allowances	(2,199,160)
Net tuition and fees	<u>11,920,093</u>
Grants and contracts, non-capital:	
Federal	8,725,926
State	12,088,091
Local	<u>5,532,960</u>

TOTAL OPERATING REVENUES

38,267,070

OPERATING EXPENSES

Salaries	82,066,536
Employee benefits	24,641,073
Supplies, materials, and other operating expenses and services	21,714,990
Financial aid	5,844,463
Utilities	2,238,088
Depreciation	<u>2,639,660</u>

TOTAL OPERATING EXPENSES

139,144,810

OPERATING LOSS

(100,877,740)

NON-OPERATING REVENUES (EXPENSES)

State apportionments, non-capital	33,021,030
Local property taxes	52,667,702
State taxes and other revenue	3,268,115
Interest and investment income	2,261,269
Transfers in from fiduciary funds, net	159,171
Interest expense	<u>(7,655,142)</u>

TOTAL NON-OPERATING REVENUES (EXPENSES)

83,722,145

INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES

(17,155,595)

OTHER REVENUES, EXPENSES, GAINS AND LOSSES

State apportionments, capital	3,892,290
Local property taxes and revenue, capital	10,858,992
Interest and investment income, capital	6,070,271
Loss on disposal of fixed asset	<u>(10,464)</u>

TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES

20,811,089

INCREASE IN NET ASSETS

3,655,494

NET ASSETS - BEGINNING OF YEAR

93,130,003

NET ASSETS - END OF YEAR

\$ 96,785,497

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 11,569,887
Federal grants and contracts	8,824,059
State grants and contracts	13,341,611
Local grants and contracts	6,049,529
Payments to suppliers	(20,892,015)
Payments to/on-behalf of employees	(108,881,496)
Payments to/on-behalf of students	(5,889,684)
Net amounts due to fiduciary funds	<u>(84,639)</u>
Net cash used by operating activities	<u>(95,962,748)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	33,175,770
Property taxes	52,667,702
Grants and gifts for other than capital purposes	5,172,385
Net transfers from fiduciary funds	<u>159,171</u>
Net cash provided by non-capital financing activities	<u>91,175,028</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State apportionment for capital purposes	6,098,802
Interest on capital investments	6,794,174
Property taxes - capital	10,873,705
Costs on issuance	(11,300)
Purchase of capital assets	(8,454,465)
Principal paid on capital debt	(2,444,720)
Interest paid on capital debt	<u>(7,921,958)</u>
Net cash provided by capital and related financing activities	<u>4,934,238</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>1,780,572</u>
Net cash provided by investing activities	<u>1,780,572</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 1,927,090

CASH BALANCE - BEGINNING OF YEAR 166,436,974

CASH BALANCE - END OF YEAR \$ 168,364,064

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

Reconciliation of Operating Loss to
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (100,877,740)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	2,639,660
Changes in assets and liabilities:	
Receivables, net	978,394
Due to fiduciary funds (net)	84,639
Prepaid expenses	271,347
Accounts payable and accrued liabilities	193,868
Deferred revenue	(207,354)
Compensated absences	<u>954,438</u>
Net cash used by operating activities	<u>\$ (95,962,748)</u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

ASSETS

Cash in county treasury	\$ 1,739,173
Cash on hand and in banks	139,074
Cash collections awaiting deposit	5,537
Accounts receivable:	
Miscellaneous	36,491
Due from governmental funds	5
TOTAL ASSETS	\$ 1,920,280

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 4,726
Due to governmental funds	135,737
Deferred revenue	28,890
Amounts held for others	81,603
TOTAL LIABILITIES	250,956

NET ASSETS

Unrestricted	1,669,324
TOTAL NET ASSETS	1,669,324

TOTAL LIABILITIES AND NET ASSETS	\$ 1,920,280
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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, 2008

ADDITIONS

Interest and investment income	\$ 81,933
Other local revenues	<u>699,317</u>
TOTAL ADDITIONS	<u>781,250</u>

DEDUCTIONS

Supplies and materials	9,686
Other operating expenses and services	39,315
Capital outlay	27,300
Other transfers out	<u>484,747</u>
TOTAL DEDUCTIONS	<u>561,048</u>

Excess of additions over deductions	<u>220,202</u>
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OTHER SOURCES (USES)

Transfers in from governmental funds	34,000
Transfers out to governmental funds	<u>(193,171)</u>
TOTAL OTHER SOURCES (USES)	<u>(159,171)</u>

CHANGE IN NET ASSETS	61,031
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NET ASSETS - BEGINNING OF YEAR	<u>1,608,293</u>
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NET ASSETS - END OF YEAR	<u><u>\$ 1,669,324</u></u>
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See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008

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, 2008

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, 2008

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, 2008, 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, 2008

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. For the fiscal year 2007-08, amortization of \$62,601 was recognized.

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, 2008

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, 2008

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 2009 will be recorded in the year computed by the State.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 \$876,000 for STRS.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008

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. All public funds are invested in bonds or government backed (collateralized) securities at 110% on the amount of deposit. The principal (face value) does not fluctuate, only the interest received on the investment. Based on recent legislation, the non-interest bearing portion of depository totals have 100% coverage regardless of the dollar amount. As of June 30, 2008, \$586,877 of the District's bank balance of \$714,306 was exposed to credit risk as follows:

Collateral held by pledging bank's trust department but not specifically in the District's name	\$586,877
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For the fiscal year 2007-08, the FDIC insurance level was \$100,000. Effective October 3, 2008, the FDIC insurance level increased to \$250,000. The District's custodial credit risk is evaluated on amounts in excess of the FDIC insurance level.

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, 2008, as provided by the pool sponsor, was \$166,062,705. 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, 2008

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, 2008.

Investments at June 30, 2008 are in internal investment pools and are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
MBIA Investment Agreement	10/1/2019	\$ 527,987	AA
Bayerische Landesbank	4/1/2031	193,956	AAA
Federated Money Market Obligation			
U.S. Treasury		205	
First American Treasury Obligation		<u>74</u>	
Total		\$ <u>722,222</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, 2008

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, 2008 consists of the following:

Federal and State	\$ 5,579,582
Miscellaneous	<u>4,104,719</u>
	<u>\$ 9,684,301</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, 2008

NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Adjustment</u> ¹	<u>Adjusted Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>Capital Assets</u>						
Land	\$41,093,804	\$ 109,389	\$ 41,203,193	\$	\$	\$ 41,203,193
Land improvements	14,726,995	125,000	14,851,995			14,851,995
Site and site improvements	25,962,575	(177,408)	25,785,167	35,334,693		61,119,860
Equipment	15,086,284	(1,162,008)	13,924,276	2,497,992	(874,085)	15,548,183
Construction in progress	36,694,871		36,694,871	6,678,032	(36,056,252)	7,316,651
Total cost	<u>133,564,529</u>	<u>(1,105,027)</u>	<u>132,459,502</u>	<u>44,510,717</u>	<u>(36,930,337)</u>	<u>140,039,882</u>
<u>Accumulated Depreciation</u>						
Land improvements	(10,262,264)	(125,000)	(10,387,264)	(252,580)		(10,639,844)
Site and site improvements	(13,431,929)	(79,048)	(13,510,977)	(919,031)		(14,430,008)
Equipment	(12,282,991)	1,746,778	(10,536,213)	(1,468,061)	863,621	(11,140,653)
Total accumulated depreciation	<u>(35,977,184)</u>	<u>1,542,730</u>	<u>(34,434,454)</u>	<u>(2,639,672)</u>	<u>863,621</u>	<u>(36,210,505)</u>
Net capital assets	<u>\$97,587,345</u>	<u>\$ 437,703</u>	<u>\$ 98,025,048</u>	<u>\$41,871,045</u>	<u>\$ (36,066,716)</u>	<u>\$ 103,829,377</u>

¹ The District adjusted their beginning fixed assets based on reconciliation of their fixed assets systems.

NOTE 6 - LEASES:

A. Capital Leases

The District leases equipment and a building valued at approximately \$336,792 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>
2008-09	\$ <u>72,496</u>	\$ <u>2,159</u>	\$ <u>74,655</u>
Total	\$ <u>72,496</u>	\$ <u>2,159</u>	\$ <u>74,655</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, 2008

NOTE 6 - LEASES: (continued)

B. Operating Leases

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

<u>Fiscal Year</u>	<u>Lease Payment</u>
2008-09	\$510,860
2009-10	400,148
2010-11	170,591
2011-12	46,575
2012-13	41,460
Total	<u>\$1,169,634</u>

Current year expenditures for operating leases is approximately \$378,270. 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, 2008

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, 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
October 1, 2012	380,000	83,688	463,688
April 1, 2013		75,328	75,328
10/1/2013 - 4/1/2018	2,200,000	501,407	2,701,407
10/1/2018- 4/1/2020	<u>1,025,000</u>	<u>47,985</u>	<u>1,072,985</u>
Total	<u>\$4,985,000</u>	<u>\$1,497,008</u>	<u>\$6,482,008</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 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
October 1, 2012		62,682	62,682
April 1, 2013	80,000	62,682	142,682
10/1/2013 - 4/1/2018	450,000	568,256	1,018,256
10/1/2018 - 4/1/2023	580,000	443,500	1,023,500
10/1/2023 - 4/1/2028	755,000	266,519	1,021,519
10/1/2028 - 4/1/2031	<u>555,000</u>	<u>57,912</u>	<u>612,912</u>
Total	<u>\$2,705,000</u>	<u>\$1,993,393</u>	<u>\$4,698,393</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008 is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2007	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2008
2006A	5/2/2007	4.25 % - 5.0%	2032	\$ 160,000,000	\$ 160,000,000	\$	\$ 2,000,000	\$ 158,000,000
				<u>\$ 160,000,000</u>	<u>\$ 160,000,000</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>158,000,000</u>
						Bond Premium*		<u>5,850,886</u>
						Total Bonds Payable		<u>\$ 163,850,886</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. Amortization was recognized during the 2007-08 year in the amount of \$243,787. The unamortized balance at June 30, 2008 is \$5,850,886.

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2008, are as follows:

Year Ended June 30,	Principal	Interest	Total
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	2,745,000	6,929,575	9,674,575
2014-2018	18,965,000	32,385,700	51,350,700
2019-2023	30,085,000	26,614,500	56,699,500
2024-2028	44,515,000	18,101,225	62,616,225
2029-2032	48,765,000	5,988,088	54,753,088
	<u>\$ 158,000,000</u>	<u>\$ 118,851,164</u>	<u>\$ 276,851,164</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 10 - LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due in One Year
Capital leases	\$ 142,216	\$	\$ 69,720	\$ 72,496	\$ 72,496
Cerficiates of participation (COP)	5,295,000		310,000	4,985,000	325,000
Revenue bonds	2,770,000		65,000	2,705,000	65,000
General obligation bonds	166,094,673		2,243,787	163,850,886	6,250,000
	<u>\$ 174,301,889</u>	<u>\$ -</u>	<u>\$ 2,688,507</u>	<u>\$ 171,613,382</u>	<u>\$ 6,712,496</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 2007-08 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, 2008

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 2007-08 was 9.306% 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 <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2006	\$2,991,233	100%	\$2,021,347	100%
2007	3,257,277	100%	2,202,417	100%
2008	3,581,192	100%	2,511,471	100%

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 April 14, 2008 is approximately \$68.4 million; this is the actuarial liability as of November 1, 2007. The actuarial study was performed to comply with Governmental Accounting Standards Board Statement No. 45 which is effective for fiscal year 2008-09. In 2007-08, the District paid \$3,679,524 for retiree benefits. In addition, the General Fund contributed \$3,317,209 toward the payment of the actuarial liability by transferring funds to the Retiree Benefit Fund. The District has budgeted \$3,821,416 for these benefits in 2008-09.

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, 2008

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.

Separate financial statements for each JPA may be obtained from the respective entity.

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

	SDCSFBC 6/30/2008 <u>(Unaudited)</u>	SWACC 6/30/2007 <u>(Audited)</u>	SAFER 6/30/2007 <u>(Audited)</u>
Total assets	\$ 8,989,017	\$35,927,403	\$ 4,474
Total liabilities	<u>4,985,605</u>	<u>18,039,163</u>	<u>1,051</u>
Retained earnings	\$ <u>4,003,412</u>	\$ <u>17,888,240</u>	\$ <u>3,423</u>
Total revenues	\$78,091,233	\$ 9,834,727	\$20,780,723
Total expenditures	<u>78,498,741</u>	<u>4,110,902</u>	<u>20,779,562</u>
Net change in retained earnings	\$ <u>(407,508)</u>	\$ <u>5,723,825</u>	\$ <u>1,161</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 14 - FUNCTIONAL EXPENSE:

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Financial Aid and Other Outgo	Depreciation	Total
Instructional	\$ 42,034,437	\$ 10,282,567	\$ 1,794,707	\$	\$	\$ 54,111,711
Academic Support	13,342,773	4,505,985	4,001,674			21,850,432
Student Services	11,812,293	3,355,208	1,765,330	57,194		16,990,025
Operation & Maintenance of Plant	3,393,554	1,332,764	3,675,773	77,316		8,479,407
Institutional Support	8,542,708	4,384,198	2,493,004	1,210,281		16,630,191
Community Services and Economic Development	89,605	14,353	13,949			117,907
Ancillary Services and Auxiliary Operations	2,851,166	765,998	1,647,377	25,704		5,290,245
Physical Property and Related Acquisitions			8,561,028	244,364		8,805,392
Transfers, Student Aid and Other Outgo			236	4,229,604		4,229,840
Depreciation Expense					2,639,660	2,639,660
Total	<u>\$ 82,066,536</u>	<u>\$ 24,641,073</u>	<u>\$ 23,953,078</u>	<u>\$ 5,844,463</u>	<u>\$ 2,639,660</u>	<u>\$ 139,144,810</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, 2008, including principal and interest, is \$2,394,354.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 15 - COMMITMENTS AND CONTINGENCIES: (continued)

C. Purchase Commitments

As of June 30, 2008, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$7,800,000. Projects will be funded through Capital Outlay and Proposition M Bond Funds.

D. Litigation

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

NOTE 16 - SUBSEQUENT EVENTS:

A. GASB Statement No. 45

The Governmental Accounting Standards Board (GASB) has recently issued GASB Statement No. 45 outlining new accounting standards for governmental agencies regarding other post-employment benefits. The statement will be effective for phase two GASB Statement No. 34 implementers in fiscal year 2008-09. The statement requires governmental agencies to record the actuarially determined cost based on the benefits expected to be earned by employees in the future, as well as those benefits the employees have already earned. Annual required contributions, as defined in GASB No. 45, shall include the employer's normal cost and a provision for amortizing the total unfunded actuarial accrued liability for a period not to exceed 30 years. The statement also requires that an actuarial valuation be performed every two years for a plan with more than 200 members and every three years for plans with fewer than 200 members.

B. Easement

In October 2008, the District purchased 86.33 acres of easement rights for \$3,172,325 paid out of the Proposition M Bond funds. This was to satisfy mitigation impacts of an Environmental Impact Report related to construction at the North Educational Center. This parcel will be for permanent conservation of the botanical wildlife.

SUPPLEMENTARY INFORMATION

PALOMAR COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2008

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, Mt. Carmel, Pauma Valley, Borrego Springs, Fallbrook and Camp Pendleton.

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Darrell L. McMullen, M.B.A.	President	2008
Ruth Larson, M.D.	Vice President	2008
Nancy C. Chadwick, M.S.W., M.P.A.	Secretary	2008
Mark R. Evilsizer, M.A.	Trustee	2010
Michele T. Nelson, Ph.D.	Trustee	2010
Robert Frederick	Student Trustee	2009

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
Norma Bean	Interim Dean, Arts, Media, Business and Computer Systems (June 30, 2009)
Wilma Owens	Dean, Career, Technical and Extended Education
Steve McDonald	Dean, Languages and Literature
Candice Francis, Ed.D	Dean, Math and the Natural and Health Sciences
Mark Vernoy, Ph.D.	Dean, Social and Behavioral Sciences
Lynda Halttunen	Dean, Counseling Services

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal year Ended June 30, 2008

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number *	Total Program Expenditures and Encumbrances
U.S. Department of Education			
Student Financial Aid Cluster:			
SEOG	84.007	N/A	\$ 244,500
Administrative Allowance	84.063	N/A	13,750
Pell Grant	84.063	N/A	3,558,214
Federal Work Study	84.033	N/A	197,028
Direct Loans	84.268	N/A	1,034,499
Academic Competitiveness Grant	84.375	N/A	<u>2,800</u>
Total Student Financial Aid Cluster			<u>5,050,791</u>
TRIO Cluster:			
Educational Opportunity Centers	84.066A	N/A	210,891
Student Support Services	84.042A	N/A	286,028
Upward Bound	84.047A	N/A	<u>250,863</u>
Total TRIO Cluster			<u>747,782</u>
Higher Education Act:			
Veterans Education	84.120	N/A	5,233
Gear-Up	84.334A	N/A	<u>2,108,311</u>
Total direct from U.S. Department of Education			<u>7,912,117</u>
Pass Through the California Department of Education (CDE):			
Vocational Technology Education Act:			
Leadership IIC	84.048	13920	439,137
ROP	84.048	N/A	72,485
Tech Prep	84.243	13929	<u>68,489</u>
Total passed through from U.S. Department of Education			<u>580,111</u>
Total U.S. Department of Education			<u>8,492,228</u>
U.S. Department of Health and Human Services			
Pass Through the California Department of Education (CDE):			
Temporary Assistance for Needy Families	93.558	N/A	55,734
Child Development Training Consortium	93.575	13967	<u>30,864</u>
Total U.S. Department of Health and Human Services			<u>86,598</u>
U.S. Department of Homeland Security - Federal Emergency Mitigation Services			
Pass Through the Governor's Office of Emergency Services:			
Public Assistance Grants	97.036	OES ID #073-91186	<u>36,282</u>
Total U.S. Department of Agriculture			<u>36,282</u>
U.S. Department of Agriculture			
Pass Through the California Department of Education (CDE):			
Child Nutrition	10.555	03755	<u>46,588</u>
Total U.S. Department of Agriculture			<u>46,588</u>
U.S. Department of Justice			
Bulletproof Vest Partnership	16.607	N/A	<u>751</u>
Total U.S. Department of Agriculture			<u>751</u>
Total Federal Programs			\$ 8,662,447
Reconciliation to Federal Revenues:			
Total Federal Expenditures			\$ 8,662,447
Revenues in excess of expenditures:			
Administrative Allowance			<u>63,479</u>
Total Federal Grants			\$ 8,725,926

* 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, 2008

Program Name	Program Revenues					Total Program Expenditures and Encumbrances
	Cash Received	Accounts Receivable	Deferred Income	Accounts Payable	Total	
State Categorical Aid Programs:						
Associate Nursing Degree Grant	\$ 68,252	\$	\$ 12,326	\$	\$ 55,926	\$ 55,926
Capacity Building Nursing Grant	111,100		15,104		95,996	95,996
Apprentice Allowance	1,420,863				1,420,863	1,420,863
BFAP	514,708			34,241	480,467	480,467
Block Grant - Instructional Materials	211,922		132,834		79,088	79,088
Cal Works	340,714		8,392		332,322	332,322
CCC Satellite Network	1,350,000	208,964			1,558,964	1,558,964
Disabled Student Programs and Services	1,396,614			182,881	1,213,733	1,213,733
Cooperative Agencies Resources for Education	145,042			119	144,923	144,923
Extended Opportunity Programs & Services	1,305,854	2,710			1,308,564	1,308,564
Faculty Work Experience	42,000	7,314			49,314	49,314
Lottery Prop 20 - Instructional Materials	1,399,195	935,357	2,334,552		-	-
Matriculation	1,686,331				1,686,331	1,686,331
Part-Time Faculty	838,297				838,297	838,297
Staff Diversity	20,692		5,831		14,861	14,861
Telecommunications and Technology	45,183	14,860			60,043	60,043
California Articulation Number System	5,000		77		4,923	4,923
TTIP E-Conferencing	2,025,000	151,254			2,176,254	2,176,254
GIS/GPS Quickstart P-Ships	216,000		91,411		124,589	124,589
Basic Skills	417,872		417,872		-	-
Career Tech ED EQP	64,636				64,636	64,636
Total State Program Expenditures	\$13,625,275	\$1,320,459	\$3,018,399	\$217,241	\$11,710,094	\$ 11,710,094

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2008**

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2007 only)			
1. Noncredit ¹	258.28		258.28
2. Credit	1,446.94		1,446.94
B. Summer Intersession (Summer 2008 - Prior to July 1, 2008)			
1. Noncredit ¹	-		-
2. Credit	202.00		202.00
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	12,106.90		12,106.90
(b) Daily Census Contact Hours	979.22		979.22
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	1,277.66		1,277.66
(b) Credit	566.60		566.60
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,273.53		2,273.53
(b) Daily Census Contact Hours	830.55		830.55
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
D. Total FTES	<u>19,941.68</u>		<u>19,941.68</u>
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	102.03		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit ¹	929.10		
(b) Credit	696.94		
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	809.23		
Centers FTES			
(a) Noncredit	242.57		
(b) Credit	1,564.59		

¹ Including Career Development and College Preparation (CDCP) FTES

N/A - Workload Measure is not applicable

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, 2008**

	Proposition M Bond Construction Fund
June 30, 2008 Annual Financial and Budget Report Fund Balance (CCFS-311)	<u>\$117,485,726</u>
Adjustments and Reclassifications:	
Understatement of unrealized gain-Cash with County	<u>407,788</u>
Net Adjustments and Reclassifications	<u>407,788</u>
June 30, 2008 Audited Fund Balance	<u>\$117,893,514</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 \$134,259 on the CCFS-311; of this amount, \$81,603 is shown as funds held in trust leaving an ending fund balance of \$52,656.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

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

	(Budget) 2009		2008		2007		2006	
	Amount	%	Amount	%	Amount	%	Amount	%
<u>GENERAL FUND:</u>								
<u>Revenue</u>								
Federal	\$ 4,544,097	3.54	\$ 3,848,919	3.08	\$ 3,554,041	3.04	\$ 2,792,482	2.53
State	48,977,396	38.14	47,379,522	37.86	51,016,426	43.62	38,300,150	34.74
County and local	<u>73,175,277</u>	<u>56.97</u>	<u>70,557,917</u>	<u>56.37</u>	<u>67,770,239</u>	<u>57.94</u>	<u>66,419,787</u>	<u>60.24</u>
Total revenue	<u>126,696,770</u>	<u>98.65</u>	<u>121,786,358</u>	<u>97.31</u>	<u>122,340,706</u>	<u>104.60</u>	<u>107,512,419</u>	<u>97.51</u>
<u>Expenditures</u>								
Academic salaries	48,653,196	37.88	50,225,161	40.13	45,135,069	38.59	41,217,378	37.38
Classified salaries	30,918,784	24.08	30,988,244	24.76	27,955,572	23.90	25,310,109	22.95
Employee benefits	24,555,375	19.12	23,498,889	18.78	21,747,502	18.59	17,131,005	15.54
Supplies and materials	2,128,775	1.66	2,236,850	1.79	2,313,006	1.98	2,119,512	1.92
Other operating expenses & services	18,138,582	14.12	14,620,925	11.68	12,797,905	10.94	11,531,564	10.46
Capital outlay	1,625,638	1.27	2,415,789	1.93	3,722,616	3.18	2,974,866	2.70
Other uses (net)	<u>2,405,742</u>	<u>1.87</u>	<u>1,164,724</u>	<u>0.93</u>	<u>3,293,671</u>	<u>2.82</u>	<u>9,974,264</u>	<u>9.05</u>
Total expenditures	<u>128,426,092</u>	<u>100.00</u>	<u>125,150,582</u>	<u>100.00</u>	<u>116,965,341</u>	<u>100.00</u>	<u>110,258,698</u>	<u>100.00</u>
Change in fund balance	<u>\$ (1,729,322)</u>	<u>(1.35)</u>	<u>\$ (3,364,224)</u>	<u>(2.69)</u>	<u>\$ 5,375,365</u>	<u>4.60</u>	<u>\$ (2,746,279)</u>	<u>(2.49)</u>
Ending fund balance	<u>\$ 12,766,972</u>	<u>9.94</u>	<u>\$ 14,496,294</u>	<u>11.58</u>	<u>\$ 17,860,518</u>	<u>15.27</u>	<u>\$ 12,485,153</u>	<u>11.32</u>
Full-time equivalent students	<u>19,542</u>		<u>19,942</u>		<u>19,406</u>		<u>19,157</u>	
Total long-term debt	<u>\$ 164,657,009</u>		<u>\$ 171,613,382</u>		<u>\$ 174,301,889</u>		<u>\$ 8,634,258</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 2006, 2007, 2008 and Budget (2009) 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, 2008

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, 2008 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.

OTHER INDEPENDENT AUDITORS' REPORTS

**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 basic financial statements of the Palomar Community College District (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 9, 2008. 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 08-1, 08-2, 08-3 and 08-4 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

December 9, 2008

**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, 2008. 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, 2008.

**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

December 9, 2008

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, 2008, and have issued our report thereon dated December 9, 2008.

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 2008 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 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.

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.

REPORT ON STATE COMPLIANCE

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

December 9, 2008

FINDINGS AND RECOMMENDATIONS

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2008

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

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

Auditee qualified as low-risk auditee? X Yes No

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

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 08-1 – 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 \$3,248,000 in student accounts receivable, whereas the general ledger balance was approximately \$340,000.

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

District Response: The District agrees with this finding and has already made significant strides in identifying the underlying issues that were impacting the reconciliations between the PeopleSoft general ledger system and the PeopleSoft student financial system. Every effort will be made to ensure reconciliation is achieved by June 30, 2009.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-2 – CASH DISBURSEMENTS

Original Finding 07-3

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

- Proper supporting documentation was missing for two out of 40 disbursements tested.
- The CalCard policy sets spending limits to \$1,000. It was noted that individual transactions exceeded the spending limits outlined in the policy. Several card holders had transactions above the threshold; in total 12 of 97 transactions were observed to have exceeded the limits.
- 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.
- The District should make a periodic review of the District's policies and procedures and adhere to them. There is currently no employee assigned to periodically review the purchasing procedures. Employees could be circumventing the policies and procedures that the District has set up since no one is currently reviewing the actual procedures performed.

Recommendation: We recommend the following:

- Ensure that the departments submit adequate and thorough documentation with voucher request. In addition, the accounts payable clerks should review all requests and ensure that supporting documents have adequate and proper approval.
- The CalCard policy for spending limits should be reviewed and controls should be implemented to adhere to the policy established.
- 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.
- Assign an employee independent of the department or utilize the internal audit position to review that the policies and procedures are being followed.

District Response:

- The District will continued to strive for 100% review and complete documentation for voucher requests.
- The internal auditor for the District has been reviewing the CalCard policies and is in the process of drafting a report.
- Currently there is no approved vendor list. The Fiscal Services department will review this issue with the internal auditor and Business and Contracts Services.
- The purchasing policies and procedures will be discussed with the internal auditor to develop a process of periodic review.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-3 – INFORMATION TECHNOLOGY INTERNAL CONTROLS

Finding: During our review of the internal controls over information technology we noted the following deficiencies:

- The computer system does not require passwords to be changed, especially for those who approve cash disbursement warrants.
- User access to key accounts payable and purchasing functions within PeopleSoft is restricted to authorized personnel. Our test observed twenty-five (25) users assigned to a collection of eight (8) roles with access to Payables and Purchasing key functions. Based on the review of these twenty-five users, a total of five (5) users held inappropriate access. Of these five users in question, two appear to be short-term removed employees; two users removed from Purchasing or Payables departments; and one user with inappropriate access. Inappropriate access rights to business critical, sensitive data may jeopardize the safeguard, confidentiality, and integrity of data. Unauthorized payments, unauthorized POs, and manipulation of invoices may lead to an increase likelihood of fraudulent activity and lead to inaccurate and/or incomplete financial statement reporting.

Recommendation: We recommend the following:

- Consult with the Information Technology Department about implementing a process to require all employees to change their passwords a minimum of twice a year.
- The District should implement formal periodic monitoring of users with access to business-critical procurement functions in PeopleSoft. We further recommend management improve current notification procedures to user-access administrators when an employee is removed from the college or department.

District Response:

- The District will review implementing the recommended process with the Information Systems Department.
- The District has already improved the current notification procedure to user-access administrators. Periodic monitoring of users with access to business-critical procurement functions in PeopleSoft will be done on a more formal basis.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2008

FINDING 08-4 – DISASTER RECOVERY PLAN

Finding: A written disaster recovery plan helps to ensure that an organization can efficiently recover after a significant interruption of information systems services. Although the District has backup procedures, there is no formalized comprehensive disaster recovery plan.

Recommendation: A written plan should include items such as:

- Recovery roles and responsibilities
- Emergency contacts
- Prioritization of systems
- Recovery procedures
- Vendor contacts

The plan should be prepared and regularly updated. It should be tested at least annually and the results of these tests should be reviewed and presented to the Board.

District Response: A written disaster recovery plan addressing significant interruption of information systems services will be prepared by the District.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2008

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2008.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

Prior Year Finding No.	Finding	Recommendation	Current Status
07-1	<p><u>INTERNAL CONTROLS</u></p> <p>Original Finding 05-2</p> <p>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.</p>	<p>Review the process for updating the fixed asset listings and determine responsibility for maintaining an up to date listing of buildings and site improvement.</p>	<p>Significant improvement noted.</p>
07-2	<p><u>STUDENT ACCOUNTS RECEIVABLE</u></p> <p>Original Finding 06-2</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 \$3,063,900 in student accounts receivable, whereas the general ledger balance was approximately \$625,000.</p>	<p>The District should maintain a listing of accounts receivable that agrees to or is reconciled to the general ledger balance.</p>	<p>Not implemented. See current year finding 08-1.</p>

PALOMAR COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS June 30, 2008

Prior Year Finding No.	Finding	Recommendation	Current Status
07-3	<p><u>CASH DISBURSEMENTS</u></p> <p>During our testing of the cash disbursements process we noted the following deficiencies:</p> <ul style="list-style-type: none"> • 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. 	<p>We recommend the following:</p> <ul style="list-style-type: none"> • 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. 	Not implemented. See current year finding 08-2.