

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SAN DIEGO COUNTY**

**REPORT ON  
AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
INCLUDING REPORTS ON COMPLIANCE  
June 30, 2009**



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**AUDIT REPORT  
June 30, 2009**

**CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	i-xvii
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statement of Net Assets .....	1
Statement of Revenues, Expenses and Changes in Net Assets.....	2
Statement of Cash Flows .....	3-4
Statement of Fiduciary Net Assets.....	5
Statement of Changes in Fiduciary Net Assets.....	6
<b>NOTES TO FINANCIAL STATEMENTS.....</b>	7-32
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of Postemployment Healthcare Benefits Funding Progress .....	33
Notes to Required Supplementary Information .....	34
<b>SUPPLEMENTARY INFORMATION:</b>	
History and Organization .....	35
Schedule of Expenditures of Federal Awards.....	36
Schedule of State Financial Assistance - Grants.....	37
Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance .....	38
Reconciliation of Annual Financial and Budget Report With Audited Fund Balances .....	39
Schedule of General Fund Financial Trends and Analysis .....	40
Notes to Supplementary Information .....	41

# **PALOMAR COMMUNITY COLLEGE DISTRICT**

## **AUDIT REPORT**

**June 30, 2009**

### **CONTENTS**

	<b><u>Page</u></b>
<b>OTHER INDEPENDENT AUDITORS' REPORTS:</b>	
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.....	42-43
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 .....	44-45
Report on State Compliance .....	46-48
<b>FINDINGS AND RECOMMENDATIONS:</b>	
Schedule of Findings and Questioned Costs – Summary of Auditor Results.....	49
Schedule of Findings and Questioned Costs Related to Financial Statements.....	50
Schedule of Findings and Questioned Costs Related to Federal Awards.....	51
Status of Prior Year Findings and Questioned Costs.....	52-55

## 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, 2009 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, 2009, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the financial statements, the Palomar Community College District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2009.

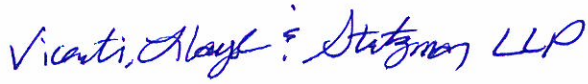
In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009 on our consideration of the Palomar Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 required supplementary information, such as the management's discussion and analysis and the schedule of funding progress, 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.

  
VICENTI, LLOYD & STUTZMAN LLP

December 14, 2009

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

**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, 2009. 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, 112 campuses, and 68 approved Education 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 Education 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 Education Center which is currently under development in the northern part of its geographical boundaries.

The Palomar College District serves more than 31,000 full-time and part-time students each fall and spring semester, while about 16,000 students attend during summer semester. Approximately 27% of our students are enrolled full-time, while about 56% are enrolled part-time in credit classes, and 17% are enrolled in non-credit classes. About 57% of our students are aged 18 through 24, while 43% are 24 or older.

Palomar College is currently offering over 250 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.

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2009**

Palomar College 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 \$26 per credit. Out-of-state residents pay the enrollment fee plus tuition fees of \$190 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.

Two new buildings are in the midst of construction on the San Marcos campus. A new Health Sciences building will be a two story building and will be the first one fully funded by monies received from the first issuance of Proposition M bonds. The Health Sciences building is scheduled to begin offering classes in the fall 2010. A second building, the Multi-Disciplinary Instructional Building, will be three stories and mostly funded from the sale of State Construction Bonds, with some augmentation from Proposition M bond money. Classes are scheduled to be offered in that building beginning with the spring 2011 semester. Progress continues to be made towards opening Palomar's North Education Center. The Environmental Impact Report (EIR) has been certified by the District, and a General Plan Amendment identified in the EIR has been approved by the County of San Diego. Construction permitting is anticipated to begin in spring 2010 with bids for the construction of the roadway and grading to begin shortly thereafter. A site for a South Education Center, which is included in Master Plan 2022 and the Proposition M resolution approved by the voters, has yet to be identified and purchased; however, the District has a Broker firm actively exploring possibilities.

The State of California's economic and fiscal crisis intensified during fiscal year 2008-09 which impacted Palomar College enormously. Even though growth revenue was earned for fiscal year 2008-09, there was also a 1.3% deficit coefficient applied to the apportionment revenue actually paid by the State to Palomar College. The State also raised tuition to \$26 per unit from \$20 per unit which caused a corresponding increase in the number of students applying for financial aid.

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

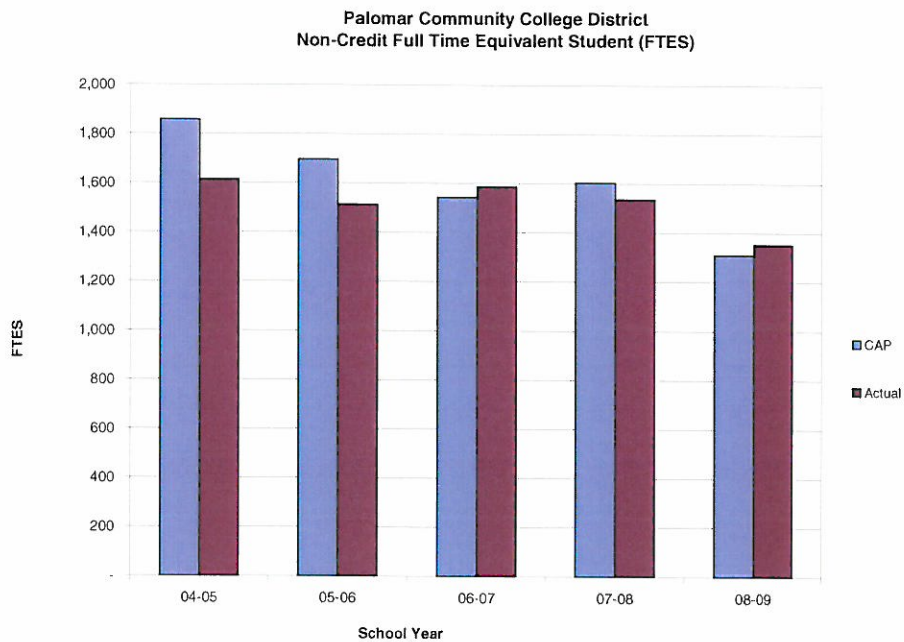
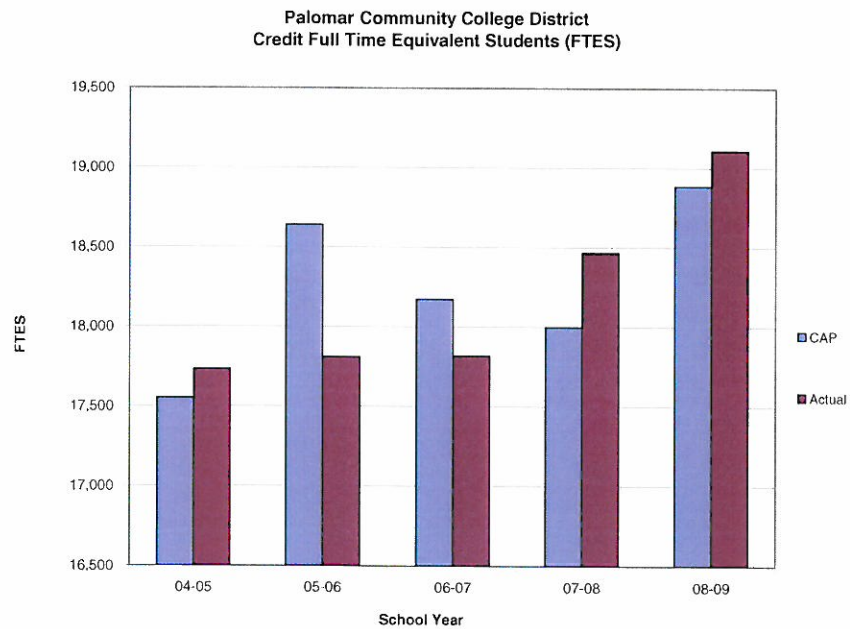
### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2009**

For fiscal year 2008-09 the District's total base full-time equivalent students (FTES) increased approximately 3.46% for credit and decreased 11.88% for non-credit courses for an overall increase of 2.28%. A District's "CAP" for the year represents a benchmark for growth that the State has determined it will fund each college/district throughout the Community College system in a given fiscal year. 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 a fiscal year depending on various factors and is subject to change until the State closes out all apportionment reporting for a given budget year. For these reasons not only does the District not assume growth in developing its budget until it is actually received but the comparisons of its FTES to CAP can vary throughout a budget year based upon how much the State predicts its available funding to be at a given point in time. Consequently, the final funded growth percentage is not known at the District level until February of the year after the fiscal year has ended (in this case February 2010), which is when all the final FTES has been reported and calculated system-wide. The State then constrains growth system-wide and by individual district/college based upon funds provided for in the fiscal year's Budget Act. For fiscal year 2008-09, the District's growth exceeded the credit "CAP" by 222.11 FTES and non-credit FTES were over "CAP" by 43.58 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, 2009**



## PALOMAR COMMUNITY COLLEGE DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

#### 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 net of related debt*, provides the equity amount in property, plant, and equipment owned by the District with the debt related to those amounts subtracted. 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, 2009

A Statement of Net Assets as of June 30, 2009 is summarized below:

	<i>(In Millions of Dollars)</i>	
	<b>2008</b>	<b>2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 156.8	\$ 142.6
Investments	0.7	0.7
Receivables	9.8	19.9
Prepaid expenses	0.3	0.6
Capitalized fees	0.1	0.1
Total current assets	<u>167.7</u>	<u>163.9</u>
Non-current assets:		
Restricted cash and cash equivalents	11.6	12.7
Capitalized fees	1.4	1.4
Capital assets, net	103.8	120.3
Total non-current assets	<u>116.8</u>	<u>134.4</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 284.5</u></u>	<u><u>\$ 298.3</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9.9	\$ 10.6
Deferred revenue	1.0	1.2
Compensated absences	3.9	3.6
Long-term liabilities	8.0	3.6
Total current liabilities	<u>22.8</u>	<u>19.0</u>
Non-current liabilities:		
Long-term liabilities less current portion	164.9	163.1
Total non-current liabilities	<u>164.9</u>	<u>163.1</u>
<b>TOTAL LIABILITIES</b>	<u>187.7</u>	<u>182.1</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	50.1	63.3
Restricted	24.9	27.4
Unrestricted	21.8	25.5
<b>TOTAL NET ASSETS</b>	<u>96.8</u>	<u>116.2</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 284.5</u></u>	<u><u>\$ 298.3</u></u>

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2009**

- Cash and cash equivalents decreased approximately 9% 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; approximately 1% is in other various investments related to Certificates of Participation (COP) and Revenue Bonds, with the remaining amounts being cash deposits with various financial institutions.
- The majority of the accounts receivable balance is usually from federal and state sources for grant and entitlement programs. However, for fiscal year 2008-09, most of the increase in accounts receivable was due to the cash flow problems the State was experiencing. At year end almost \$8 million was due from the State for expenditures on the Multi-Disciplinary Instructional Building and over \$6 million was due from the State for apportionment. The State is deferring more and more apportionment payments in order to cope with their own cash flow crisis.
- Accounts payable represents amounts due as of the fiscal year end for goods and services received as of June 30, 2009. The total current liabilities of \$19 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 \$3.8 million decrease in total current liabilities was almost entirely due to the fact that the current portion of the long-term liability for the Prop M bond payments is much lower in 2009-10 than it was in 2008-09.
- The District currently has three debt issues outstanding that amount to \$164.7 million; \$4.7 million of this total is related to Certificates of Participation (COP), \$2.6 million is related to Revenue Bonds and \$157.4 million is related to the debt created by the General Obligation Bonds issued in May 2008 for Proposition M, Series A. An additional long term debt recognized this year was \$0.7 million related to Other Post-Employment Benefits (OPEB). Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.

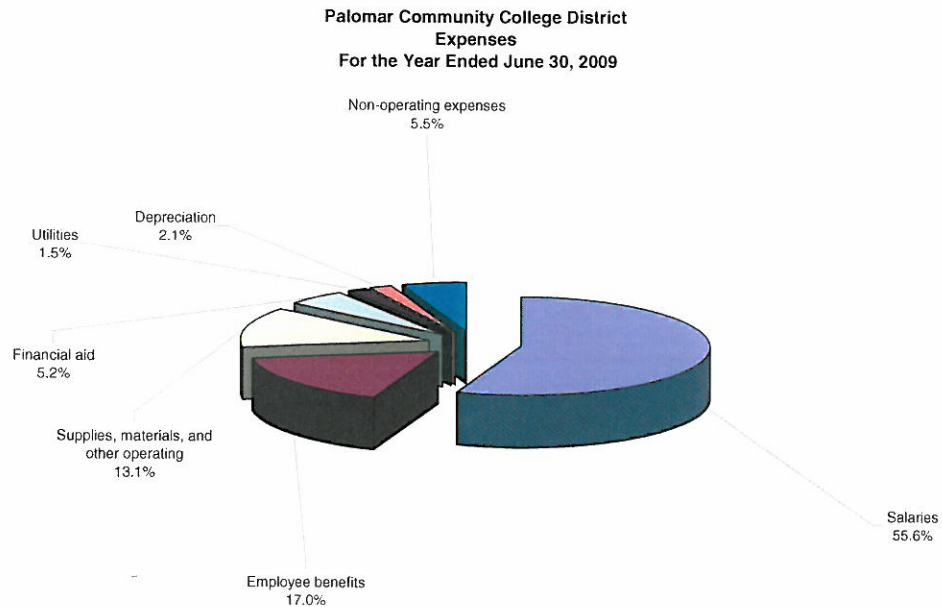
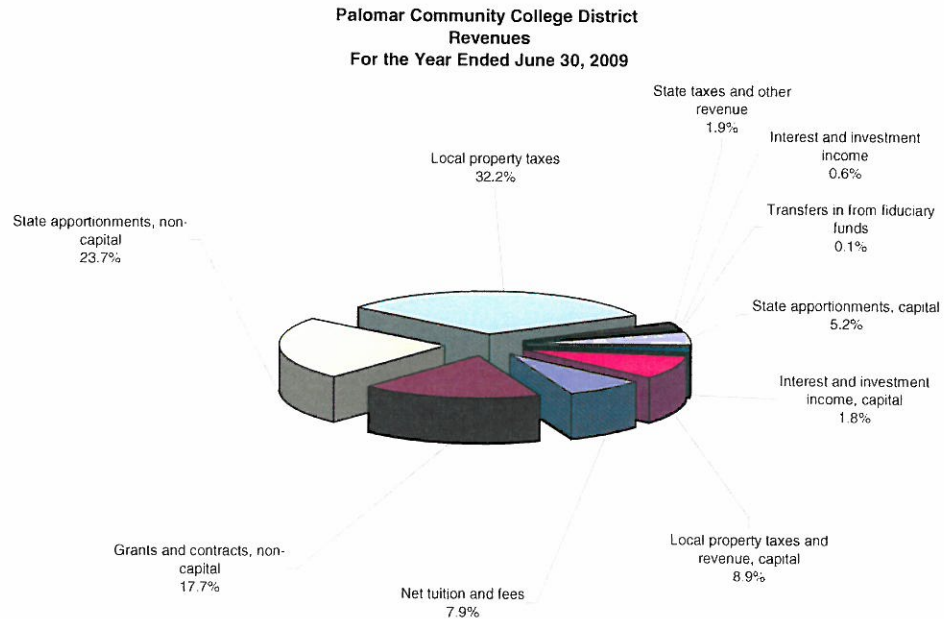
#### **Statement of Revenues, Expenses, and Changes in Net Assets**

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, 2009**



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

	<i>(In Millions of Dollars)</i>	
	<u>2008</u>	<u>2009</u>
Operating Revenue		
Net tuition and fees	\$ 11.9	\$ 13.0
Grants and contracts, non-capital	<u>26.4</u>	<u>29.0</u>
Total operating revenues	<u>38.3</u>	<u>42.0</u>
Operating Expenses		
Salaries and benefits	106.7	105.2
Supplies and other expenses	24.0	21.3
Financial aid	5.8	7.5
Depreciation	<u>2.6</u>	<u>3.1</u>
Total operating expenses	<u>139.1</u>	<u>137.1</u>
Operating Loss	<u>(100.8)</u>	<u>(95.1)</u>
Non-operating revenues (expenses)		
State apportionments, non-capital	33.0	38.9
Local property taxes	52.6	53.0
State taxes and other revenue	3.3	3.1
Interest and investment income	2.3	1.0
Transfers, net	0.2	0.2
Other non-operating expenses, net	<u>(7.7)</u>	<u>(7.5)</u>
Total non-operating revenues (expenses)	<u>83.7</u>	<u>88.7</u>
Other revenues, expenses, gains or losses		
State apportionments, capital	3.9	8.6
Local property taxes, capital	10.8	14.7
Interest and investment income, capital	6.1	2.9
Loss on disposal of fixed asset	<u>          </u>	<u>(0.4)</u>
Total other revenues, expenses, gains or losses	<u>20.8</u>	<u>25.8</u>
Change in Net Assets	3.7	19.4
Net assets, beginning of year	<u>93.1</u>	<u>96.8</u>
Net assets, end of year	<u>\$ 96.8</u>	<u>\$ 116.2</u>

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2009**

- 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 service classes and other related fees. For fiscal year 2008-09 the State increased tuition from \$20 to \$26 per unit.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program. Increases were due to increases in grant revenues as compared to fiscal year 2007-08.
- Total operating expenses decreased slightly by 1.5% over the prior fiscal year as a result of several factors. Palomar College enacted a modified hiring freeze as of March 2008 and in April 2008 required "other" operating expenditures to be reviewed and approved by the appropriate Vice President. Personnel costs made up 83% of the total operating expenses excluding depreciation and financial aid for all funds. Operating expenses include personnel costs, supplies, other services, and capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense. Financial Aid increased as more students were seeking tuition relief due to the State's economic downturn impacting their personal finances.
- State Apportionments, non-capital represents the amount received from the State based on FTES. Palomar College was notified in fiscal year 2008-09 that effective fiscal year 2007-08 it had moved to a large single college district (20,000 FTES) as defined in SB361 resulting in an increase of \$1,107,182 in basic apportionment allocation for each fiscal year being received and reflected in fiscal year 2008-09 revenue. 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. As the County started to experience decreased property valuations, and less volume of sales, the property taxes started to show a much less increase than in past years. This year the increase was only .8% even though normally valuations automatically increase 2% per year.
- 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 increased significantly due to the construction of the State funded Multi-Disciplinary Instructional Building. Local Property Taxes, Capital increased significantly due to the assessment of taxes for the Prop M bond. Interest revenue significantly dropped due to a decrease in interest rates and the spending down of Prop M bond monies.
- 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. Additional detail on all expenditures by object code for fiscal year 2008-09 is included in Note 14 of the financial statements.

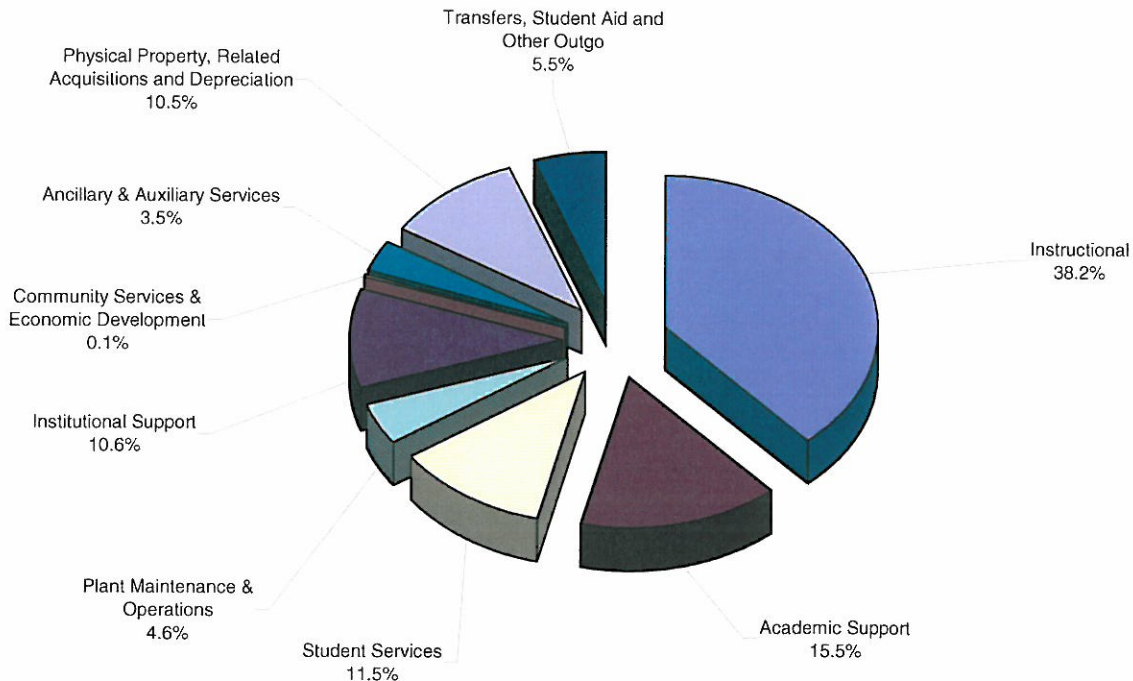
# PALOMAR COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

Activity	Code	2006-07 Total	% of Total	2007-08 Total	% of Total	2008-09 Total	% of Total
Instructional	01-59	\$ 48,025,493	39.1%	\$ 54,111,711	38.9%	\$ 52,435,805	38.2%
Academic Support	60-62	17,421,908	14.2%	21,850,432	15.7%	21,193,146	15.5%
Student Services	63-64	14,511,984	11.8%	16,990,025	12.2%	15,791,296	11.5%
Plant Maintenance & Operations	65	4,948,036	4.0%	8,479,407	6.1%	6,243,797	4.6%
Institutional Support	66-67	12,849,072	10.5%	16,630,191	12.0%	14,570,653	10.6%
Community Services & Economic Development	68	97,632	0.1%	117,907	0.1%	167,284	0.1%
Ancillary & Auxiliary Services	69-70	3,610,580	2.9%	5,290,245	3.8%	4,817,292	3.5%
Physical Property and Related Acquisitions	71	16,957,541	13.8%	11,445,052	8.2%	14,459,961	10.5%
Transfers, Student Aid and Other Outgo	72-73	4,365,662	3.6%	4,229,840	3.0%	7,496,032	5.5%
<b>Total</b>		<b>\$ 122,787,908</b>	<b>100.0%</b>	<b>\$ 139,144,810</b>	<b>100.0%</b>	<b>\$ 137,175,266</b>	<b>100.0%</b>

**Palomar Community College District  
Expenditures by Function/Activity  
Fiscal Year 2008-09**





## PALOMAR COMMUNITY COLLEGE DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

#### 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, 2008 and 2009 is summarized and presented below:

	<i>(In Millions of Dollars)</i>	
	<b>2008</b>	<b>2009</b>
Cash Provided by (Used in)		
Operating activities	\$ (95.9)	\$ (93.5)
Non-capital financing activities	91.2	96.1
Capital and related financing activities	4.9	(16.5)
Investing activities	<u>1.7</u>	<u>1.0</u>
Net increase in cash and cash equivalents	1.9	(12.9)
Cash balance, beginning of year	<u>166.4</u>	<u>168.3</u>
Cash balance, end of year	<u>\$ 168.3</u>	<u>\$ 155.4</u>

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2009**

- 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. As a result of the modified hiring freeze and restrain from incurring other expenditures unless critical to operations, the cash used by operating activities decreased.
- With the aforementioned additional apportionment related to reaching a 20,000 FTES threshold as a large single college district, and the growth revenue received in fiscal year 2008-09 for fiscal year 2007-08, apportionment increases is what mainly 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). These expenditures increased as the spending of Prop M funds increased and the building of the State funded Multi-Disciplinary Instructional Building started.
- 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 funds 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 these assets may not be used to finance district operations. The District is responsible for ensuring that assets reported in these funds are used for their intended purposes.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

**Capital Asset and Debt Administration**

**Capital Assets**

- As of June 30, 2009, the District had over \$120.3 million in net capital assets. Total capital assets of \$157.4 million consist of land, buildings, and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. Accumulated depreciation related to these assets is \$37.1 million. Depreciation expense of \$3.1 million was recorded for the fiscal year.
- Site Improvements decreased due to the demolition of an existing building to be replaced by the new Health Sciences Building.
- Construction was started on both the Health Sciences Building and the Multi-Disciplinary Instructional Building which explains the huge increase in Construction In Progress.

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>2008</u>	<u>2009</u>
Land and improvements	\$ 45.4	\$ 48.7
Site and site improvements	46.7	45.1
Equipment	4.4	4.0
Construction in progress	<u>7.3</u>	<u>22.5</u>
Net capital assets	<u>\$ 103.8</u>	<u>\$ 120.3</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2009**

**Debt**

At June 30, 2009, the District had \$165.4 million in debt; \$157.4 in General Obligations Bonds, \$4.7 million from Certificates of Participation (COP), \$2.6 million in Revenue Bonds payable and \$0.7 million in Other Post-Employment Benefits (OPEB). The recording of OPEB liabilities in the fiscal year 2008-09 financial statements brings Palomar College in compliance with GASB 45, which requires districts to disclose a liability for future retiree benefits. See Note 12 to the financial statements for addition 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>2008</u>	<u>2009</u>
Long-Term Debt		
Capital leases	\$ 0.1	\$ -
COP payable	4.9	4.7
Revenue bonds payable	2.7	2.6
General obligation bond	163.9	157.4
Other post-employment benefits (OPEB)	<u>        </u>	<u>0.7</u>
Total long-term debt	171.6	165.4
Less current portion	<u>6.7</u>	<u>2.3</u>
Long-term portion	<u>\$ 164.9</u>	<u>\$ 163.1</u>



## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2009**

#### **Economic Factors that May Affect the Future**

The economic position of the State continues to be of high concern not only to Palomar College, but to all community colleges statewide. The State has already enacted several cost cutting measures for fiscal year 2009-2010, including a 3.39% reduction in funded FTES for each district/college, significant cuts to categorical programs, and no COLA adjustment for the fiscal year. These State cuts have necessitated expenditure cuts at Palomar, including a reduction in the amount of class sections being offered. As the State continues to experience further fiscal and budget declines it is anticipated that there could be further reductions enacted before the budget year ends. Consequently, the fluidity of the State's current situation is making it difficult for the District to plan beyond the current fiscal year's budget.

With no cost of living increase projected from the State for at least the next year, increasing utility rates, potential water shortages, and rising electricity costs and increases in power volume usage as new buildings are completed, the District must plan how to address these concerns in future budget years. Also double digit increases to health care costs, along with increases in the PERS rates add to an atmosphere of uncertainty.

The housing market continues to be a concern nationwide. Even though San Diego County held up well as compared to other counties during fiscal year 2008-09 it began to experience the effects of property valuation and sales declines. In addition, the County's ability to collect property taxes became more difficult as a result of the State's economic downturn. However, two recent articles in the San Diego Union reported via two indicators that things may be beginning to turn around in the County even though only slightly. The first is the fact that San Diego County homeowners will experience a slight decrease in property taxes for 2010 as a result of a tax-reduction measure passed in 1978 by the voters. This decrease will provide a bit of relief to taxpayers who are struggling due to the economic situation. And, for the seventh month in a row, San Diego County's economic outlook improved slightly during the month of October 2009. However, despite the modest growth, the job market, the primary driver of a local economy, continued to weaken.

For fiscal year 2009-10 the State imposed a 3.39% workload reduction in the amount of FTES students funded through the apportionment process. This translates to a smaller apportionment allocation in Palomar College's funded FTES base for fiscal year 2009-10 and in subsequent fiscal years unless growth in apportionment is provided for by the State, earned by the college, and eventually paid by the State.

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2009**

In developing the fiscal year 2009-10 adopted budget, Palomar College continued to focus on efforts to control operating costs, while serving students, ensuring fiscal stability, and maintaining jobs for all full-time employees. Also, it was assumed that the modified hiring freeze would continue in fiscal year 2009-10. The budget for fiscal year 2009-10 was adopted as a balanced budget, using a portion of the beginning fund balance to offset budgeted expenses in excess of budgeted revenues. The cuts the categorical programs experienced from the State were assumed to be backfilled, not only with federal ARRA monies received, but with general funds as well. As these State categorical cuts are expected to continue through fiscal year 2012-13 and the ARRA money was only allocated by the Federal Government for fiscal year 2009-10, the general fund will have to increase its funding of the categorical areas in fiscal year 2010-11 and potentially in subsequent fiscal years.

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 in order to ensure the fiscal stability of the District.

## **BASIC FINANCIAL STATEMENTS**

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF NET ASSETS**

**June 30, 2009**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 142,626,572
Investments	721,993
Accounts receivable, net	19,870,175
Due from fiduciary funds	32,203
Prepaid expenses	578,227
Capitalized fees	<u>62,601</u>

Total current assets	<u>163,891,771</u>
----------------------	--------------------

Non-current assets:

Restricted cash and cash equivalents	12,749,101
Capitalized fees	1,367,338
Capital assets, net of accumulated depreciation	<u>120,332,588</u>

Total non-current assets	<u>134,449,027</u>
--------------------------	--------------------

<b>TOTAL ASSETS</b>	<b><u>\$ 298,340,798</u></b>
---------------------	------------------------------

**LIABILITIES**

Current liabilities:

Accounts payable	\$ 6,258,711
Accrued liabilities	4,292,301
Deferred revenue	1,188,722
Compensated absences	3,660,710
Accrued interest payable	1,290,572
COP payable - current portion	340,000
Revenue bonds payable - current portion	70,000
General obligation bonds payable - current portion	<u>1,905,000</u>

Total current liabilities	<u>19,006,016</u>
---------------------------	-------------------

Non-current liabilities:

COP payable	4,320,000
Revenue bonds payable	2,570,000
General obligation bonds payable, including premium	155,452,099
Other post-employment benefits (OPEB)	<u>759,905</u>

Total non-current liabilities	<u>163,102,004</u>
-------------------------------	--------------------

<b>TOTAL LIABILITIES</b>	<b><u>182,108,020</u></b>
--------------------------	---------------------------

**NET ASSETS**

Invested in capital assets, net of related debt	63,283,386
Restricted for:	
Capital projects	11,073,804
Debt service	5,872,449
Other special services	10,460,309
Unrestricted	<u>25,542,830</u>

<b>TOTAL NET ASSETS</b>	<b><u>116,232,778</u></b>
-------------------------	---------------------------

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 298,340,798</u></b>
---	------------------------------

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, 2009**

<b>OPERATING REVENUES</b>	
Tuition and fees (gross)	\$ 15,544,761
Less: scholarship discounts & allowances	<u>(2,540,350)</u>
Net tuition and fees	<u>13,004,411</u>
Grants and contracts, non-capital:	
Federal	10,259,732
State	13,965,690
Local	<u>4,822,497</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>42,052,330</b></u>
<b>OPERATING EXPENSES</b>	
Salaries	80,582,368
Employee benefits	24,607,560
Supplies, materials, and other operating expenses and services	19,097,352
Financial aid	7,551,991
Utilities	2,248,784
Depreciation	<u>3,087,211</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>137,175,266</b></u>
<b>OPERATING LOSS</b>	<u><b>(95,122,936)</b></u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
State apportionments, non-capital	38,974,983
Local property taxes	52,967,023
State taxes and other revenue	3,111,333
Interest and investment income	1,062,473
Transfers in from fiduciary funds, net	156,817
Interest expense	<u>(7,537,990)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u><b>88,734,639</b></u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<u><b>(6,388,297)</b></u>
<b>OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	
State apportionments, capital	8,624,962
Local property taxes and revenue, capital	14,700,590
Interest and investment income, capital	2,918,790
Loss on disposal of fixed asset	<u>(408,764)</u>
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<u><b>25,835,578</b></u>
<b>INCREASE IN NET ASSETS</b>	<b>19,447,281</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u><b>96,785,497</b></u>
<b>NET ASSETS - END OF YEAR</b>	<u><u><b>\$ 116,232,778</b></u></u>

See the accompanying notes to the financial statements.



PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2009

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$ 12,118,911
Federal grants and contracts	10,137,771
State grants and contracts	13,908,886
Local grants and contracts	5,290,518
Payments to suppliers	(21,149,130)
Payments to/on-behalf of employees	(106,373,625)
Payments to/on-behalf of students	(7,582,749)
Net amounts due from fiduciary funds	<u>103,529</u>
Net cash used by operating activities	<u>(93,545,889)</u>

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

State apportionments and receipts	34,352,699
Property taxes	52,967,023
Grants and gifts for other than capital purposes	8,635,984
Net transfers from fiduciary funds	<u>156,817</u>
Net cash provided by non-capital financing activities	<u>96,112,523</u>

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

State apportionment for capital purposes	800,978
Interest on capital investments	3,707,983
Property taxes - capital	14,862,968
Costs on issuance	(1,498)
Purchase of capital assets	(21,312,671)
Principal paid on capital debt	(6,712,496)
Interest paid on capital debt	<u>(7,840,806)</u>
Net cash used by capital and related financing activities	<u>(16,495,542)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments	<u>940,517</u>
Net cash provided by investing activities	<u>940,517</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (12,988,391)

**CASH BALANCE - BEGINNING OF YEAR** 168,364,064

**CASH BALANCE - END OF YEAR** \$ 155,375,673

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2009

Reconciliation of Operating Loss to  
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (95,122,936)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	3,087,211
Changes in assets and liabilities:	
Receivables, net	(614,056)
Due to fiduciary funds (net)	(103,528)
Prepaid expenses	53,872
Accounts payable and accrued liabilities	(1,202,642)
Deferred revenue	179,743
Compensated absences	<u>176,447</u>
Net cash used by operating activities	<u>\$ (93,545,889)</u>

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2009**

**ASSETS**

Cash in county treasury	\$	1,720,618
Cash on hand and in banks		187,642
Cash collections awaiting deposit		9,326
Accounts receivable:		
Miscellaneous		42,276
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>1,959,862</u></b>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$	15,651
Due to governmental funds		32,203
Deferred revenue		62,059
Amounts held for others		112,770
<b>TOTAL LIABILITIES</b>		<b><u>222,683</u></b>

**NET ASSETS**

Unrestricted		1,737,179
<b>TOTAL NET ASSETS</b>		<b><u>1,737,179</u></b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b><u>1,959,862</u></b>
---	-----------	-------------------------

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**For the Fiscal Year Ended June 30, 2009**

**ADDITIONS**

Student fees	\$	241,902
Interest and investment income		44,248
Contributions and other local revenues		<u>470,258</u>
<b>TOTAL ADDITIONS</b>		<u>756,408</u>

**DEDUCTIONS**

Supplies and materials		24,029
Other operating expenses and services		31,049
Capital outlay		6,878
Student financial aid		<u>469,780</u>
<b>TOTAL DEDUCTIONS</b>		<u>531,736</u>

Excess of additions over deductions		<u>224,672</u>
-------------------------------------	--	----------------

**OTHER SOURCES (USES)**

Transfers in from governmental funds		34,000
Transfers out to governmental funds		<u>(190,817)</u>
<b>TOTAL OTHER SOURCES (USES)</b>		<u>(156,817)</u>

<b>CHANGE IN NET ASSETS</b>		67,855
-----------------------------	--	--------

<b>NET ASSETS - BEGINNING OF YEAR</b>		<u>1,669,324</u>
---------------------------------------	--	------------------

<b>NET ASSETS - END OF YEAR</b>	\$	<u><u>1,737,179</u></u>
---------------------------------	----	-------------------------

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**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, 2009

**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, 2009

**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, 2009**

**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, 2009, 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, 2009

**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 2008-09, 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. Land and construction in progress are not depreciated.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

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

7. Accounts Payable and Accrued Interest Payable

Accounts payable consists of amounts due to vendors and also includes accrued interest on the general obligation bonds. These amounts are reported as separate line items on the statement of net assets.

8. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable and load banking hours as described below.

9. Deferred Revenue

Cash received for Federal and State special projects and programs and for student fees 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, 2009

**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 or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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 2010 will be recorded in the year computed by the State.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**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 \$858,000 for STRS.



PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**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, *Accounting and Financial Reporting for Nonexchange Transactions*.

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, 2009

**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.

18. New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension Plans*, outlining new accounting standards for governmental agencies regarding other post-employment benefits. The statement is effective for the District in fiscal year 2008-09. The statement requires governmental agencies to record and disclose the actuarially determined cost of post-employment benefits other than pensions based on the benefits expected to be earned by employees in the future, as well as those benefits the employees have already earned. The annual required contribution (ARC), as defined in the statement, includes the employer's normal cost and a provision(s) for amortizing the total unfunded actuarial accrued liability for a period not to exceed 30 years.

Detailed disclosure required by the statement is provided at Note 12.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**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, 2009, \$343,093 of the District's bank balance of \$593,093 was exposed to credit risk as follows:

Collateral held by pledging bank's trust department but not specifically in the District's name	\$343,093
--	-----------

At June 30, 2009 and through December 31, 2013, the FDIC insurance level was \$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, 2009, as provided by the pool sponsor, was \$152,605,038. 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, 2009

**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, 2009.

Investments at June 30, 2009 are in internal investment pools and are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard &amp; Poor's Rating</u>
Bayerische Landesbank	4/1/2031	\$ 193,956	AAA
Federated Money Market Obligation			
U.S. Treasury		528,034	
First American Treasury Obligation		<u>3</u>	
Total		\$ <u>721,993</u>	

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. The Federated Money Market Obligation U.S. Treasury has been classified as an investment as the District intends to hold these funds for the long-term.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**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 Bayerische Landesbank and Federated Money Market Obligation U.S. Treasury, which is not at risk as noted above.

**NOTE 3 - ACCOUNTS RECEIVABLE:**

The accounts receivable balance as of June 30, 2009 consists of the following:

Federal and State	\$17,307,096
Miscellaneous	<u>2,563,079</u>
	<u>\$19,870,175</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, 2009**

**NOTE 5 - CAPITAL ASSETS:**

The following provides a summary of changes in capital assets for the year ended June 30, 2009:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2009</u>
<u>Capital Assets</u>				
Land	\$ 41,203,193	\$ 3,562,385	\$	\$ 44,765,578
Land improvements	14,851,995			14,851,995
Site and site improvements	61,119,860		(1,357,815)	59,762,045
Equipment	15,548,183	1,288,907	(1,301,633)	15,535,457
Construction in progress	7,316,651	18,710,279	(3,562,385)	22,464,545
Total cost	<u>140,039,882</u>	<u>23,561,571</u>	<u>(6,221,833)</u>	<u>157,379,620</u>
<u>Accumulated Depreciation</u>				
Land improvements	(10,639,844)	(252,568)		(10,892,412)
Site and site improvements	(14,430,008)	(1,257,363)	1,108,261	(14,579,110)
Equipment	<u>(11,140,653)</u>	<u>(1,577,280)</u>	<u>1,142,423</u>	<u>(11,575,510)</u>
Total accumulated depreciation	<u>(36,210,505)</u>	<u>(3,087,211)</u>	<u>2,250,684</u>	<u>(37,047,032)</u>
Net capital assets	<u>\$ 103,829,377</u>	<u>\$20,474,360</u>	<u>\$ (3,971,149)</u>	<u>\$ 120,332,588</u>



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE 6 - 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>
2009-10	\$ 442,089
2010-11	342,336
2011-12	87,069
2012-13	51,737
2013-14	<u>5,657</u>
Total	<u>\$ 928,888</u>

Current year expenditures for operating leases is approximately \$526,700. 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, 2009**

**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, 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
October 1, 2013	400,000	75,328	475,328
April 1, 2014		65,328	65,328
10/1/2014 - 4/1/2019	2,300,000	396,595	2,696,595
10/1/2019- 4/1/2020	<u>525,000</u>	<u>12,141</u>	<u>537,141</u>
Total	<u>\$ 4,660,000</u>	<u>\$ 1,278,796</u>	<u>\$ 5,938,796</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**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, 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
October 1, 2013		60,903	60,903
April 1, 2014	80,000	60,903	140,903
10/1/2014 - 4/1/2019	475,000	546,300	1,021,300
10/1/2019 - 4/1/2024	610,000	412,938	1,022,938
10/1/2024 - 4/1/2029	795,000	225,675	1,020,675
10/1/2029 - 4/1/2031	<u>380,000</u>	<u>29,469</u>	<u>409,469</u>
Total	<u>\$2,640,000</u>	<u>\$1,856,310</u>	<u>\$4,496,310</u>

# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

### 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, 2009 is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2008	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2009
2006A	5/2/2007	4.25 % - 5.0%	2032	\$ 160,000,000	\$ 158,000,000	\$	\$ 6,250,000	\$ 151,750,000
				<u>\$ 160,000,000</u>	<u>\$ 158,000,000</u>	<u>\$ -</u>	<u>\$ 6,250,000</u>	<u>151,750,000</u>
						Bond Premium*		<u>5,607,099</u>
						Total Bonds Payable		<u>\$ 157,357,099</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 2008-09 year in the amount of \$243,787. The unamortized balance at June 30, 2009 is \$5,607,099.

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2009, are as follows:

Year Ended June 30,	Principal	Interest	Total
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	3,060,000	6,806,050	9,866,050
2015-2019	20,915,000	31,452,750	52,367,750
2020-2024	32,740,000	25,110,250	57,850,250
2025-2029	47,820,000	16,048,712	63,868,712
2030-2032	<u>37,795,000</u>	<u>3,671,750</u>	<u>41,466,750</u>
	<u>\$ 151,750,000</u>	<u>\$ 111,368,575</u>	<u>\$ 263,118,575</u>

# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due in One Year
Capital leases	\$ 72,496	\$	\$ 72,496	\$ -	\$
Certificates of participation (COP)	4,985,000		325,000	4,660,000	340,000
Revenue bonds	2,705,000		65,000	2,640,000	70,000
General obligation bonds	163,850,886		6,493,787	157,357,099	1,905,000
Other post-employment benefits (OPEB)		759,905		759,905	
	<u>\$ 171,613,382</u>	<u>\$ 759,905</u>	<u>\$ 6,956,283</u>	<u>\$ 165,417,004</u>	<u>\$ 2,315,000</u>

For governmental activities, including capital leases and net OPEB obligations, liabilities are liquidated by the General Fund.

### **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 2008-09 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, 2009

**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 2008-09 was 9.428% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

**Contributions to STRS and PERS**

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

Year Ended June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2007	\$3,257,277	100%	\$2,202,417	100%
2008	3,581,192	100%	2,511,471	100%
2009	3,509,668	100%	2,545,033	100%

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE 12 - POST-EMPLOYMENT HEALTH CARE BENEFITS:**

**Plan Description and Eligibility**

The District administers a single-employer defined benefit health care plan (the Retiree Health Plan). The plan provides health and dental benefits to eligible retirees, spouses/registered domestic partners and eligible dependents in accordance with provisions established through negotiations between the District and the bargaining unions representing employees. Plan provisions are renegotiated each three-year bargaining period. The retiree health plan does not issue a separate financial report.

**Eligibility**

The District currently provides retiree and dependent health benefits to eligible academic, classified, classified leadership and administrators. Eligibility requirements vary by employee classification. The length of coverage depends on total years of service to the College. Membership of the plan consisted of the following at November 1, 2007, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving benefits	351
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>754</u>
	<u>1,105</u>

**Funding Policy**

The District currently finances benefits on a pay-as-you-go basis. The District contributes 100 percent of the cost of current year premiums for eligible retirees, spouses/registered domestic partners and eligible dependents as applicable. For fiscal year ended 2009, the District contributed \$3,790,795 to the plan. Although the plan has no segregated assets, the District does maintain a post retirement benefits fund to designate resources for retiree health costs. At June 30, 2009, the fund's fund balance was \$14,770,159.



PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**NOTE 12 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (continued)**

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

Annual required contribution (ARC)	\$4,550,700
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	4,550,700
Contributions made	3,790,795
Change in net OPEB obligation	759,905
Net OPEB obligation - beginning of year <sup>(1)</sup>	-
Net OPEB obligation - end of year	<u>\$ 759,905</u>

<sup>(1)</sup> GASB Statement No. 45 provides for prospective implementation, therefore the beginning OPEB obligation is set at zero as the beginning of the initial year.

The District's annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended 2009 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$4,550,700	83.3%	\$ 759,905

Fiscal year 2009 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available. In future years, three-year trend information will be presented.

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

#### **NOTE 12 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (continued)**

##### **Funding Status and Funding Progress**

As of November 1, 2007, the most recent actuarial valuation date, the plan was completely unfunded. The actuarial accrued liability for benefits was \$68,399,865, and the unfunded actuarial accrued liability (UAAL) was also \$68,399,865. The covered payroll (annual payroll of active employees covered by the plan) was \$54,521,872, and the ratio of the UAAL to the covered payroll was 125.5%.

Actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

##### **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

In the November 1, 2007 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4% and a 3% inflation assumption. The actuarial value of assets was determined using the amount of contributions made; because there has not been a previous valuation, it was not necessary at this time to make an election with respect to whether to use an asset smoothing formula and, if so, what smoothing method to use. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009, was twenty-nine years.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**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.

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 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.

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.

The District joined the Community College League of California's (CCLC) Retiree Health Benefit JPA Program in September 2006. The CCLC Retiree Health Benefit JPA was created to assist districts in responding to the GASB No. 45 accounting standards, which require districts to place funds in an irrevocable trust or acknowledge, in their annual financial statements, their unfunded liability.

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

# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

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

	SDCSFBC 6/30/2009 (Unaudited)	SWACC 6/30/2008 (Audited)	SAFER 6/30/2008 (Audited)
Total assets	\$18,643,813	\$39,034,338	\$ 8,918
Total liabilities	<u>14,378,411</u>	<u>19,175,367</u>	<u>4,661</u>
Retained earnings	\$ <u>4,265,402</u>	\$ <u>19,858,971</u>	\$ <u>4,257</u>
Total revenues	\$87,072,601	\$10,740,119	\$26,409,423
Total expenditures	<u>91,796,240</u>	<u>8,769,388</u>	<u>26,408,589</u>
Net change in retained earnings	\$ <u>(4,723,639)</u>	\$ <u>1,970,731</u>	\$ <u>834</u>

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

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Financial Aid and Other Outgo	Depreciation	Total
Instructional	\$ 40,891,043	\$ 10,131,924	\$ 1,412,838	\$	\$	\$ 52,435,805
Academic Support	13,453,263	4,403,025	3,336,858			21,193,146
Student Services	11,444,506	3,397,520	893,070	56,200		15,791,296
Operation & Maintenance of Plant	3,252,873	1,337,562	1,653,362			6,243,797
Institutional Support	8,434,817	4,476,176	1,659,660			14,570,653
Community Services and Economic Development	120,400	44,901	1,983			167,284
Ancillary Services and Auxiliary Operations	2,985,466	816,452	1,015,374			4,817,292
Physical Property and Related Acquisitions			11,372,750			11,372,750
Transfers, Student Aid and Other Outgo			241	7,495,791		7,496,032
Depreciation Expense					<u>3,087,211</u>	<u>3,087,211</u>
Total	<u>\$ 80,582,368</u>	<u>\$ 24,607,560</u>	<u>\$ 21,346,136</u>	<u>\$ 7,551,991</u>	<u>\$ 3,087,211</u>	<u>\$ 137,175,266</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE 15 - COMMITMENTS AND CONTINGENCIES:**

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

The District has received State and Federal funds for specific purposes 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, 2009, including principal and interest, is \$2,181,119.

**C. Purchase Commitments**

As of June 30, 2009, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$44,200,000. 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.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS**

For the Fiscal Year Ended June 30, 2009

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funding Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
11/1/2007	\$ -	\$68,399,865	\$68,399,865	0%	\$54,521,872	125.5%

Note: Fiscal year 2009 was the implementation year of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year actuarial comparative data is not available. In future years, as actuarial valuations are performed, three year trend information will be presented.

The District has set aside \$14,770,159 for future retiree health care costs in the Post Retirement Benefits Fund.

See the accompanying notes to the required supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended June 30, 2009

**NOTE 1 - PURPOSE OF SCHEDULE:**

**A. Schedule of Postemployment Healthcare Benefits Funding Progress**

This schedule is prepared to show information for the most recent actuarial valuation and in future years, the information from the three most recent actuarial valuations in accordance with Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.



## **SUPPLEMENTARY INFORMATION**

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **HISTORY AND ORGANIZATION**

**June 30, 2009**

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>
Nancy C. Chadwick, M.S.W., M.P.A.	President	2012
Michele T. Nelson, Ph.D.	Vice President	2010
Mark R. Evilsizer, M.A.	Secretary	2010
Darrell L. McMullen, M.B.A.	Trustee	2012
Rose Marie Dishman, Ph.D.	Trustee	2012
Andrew Bissell	Student Trustee	2010

#### **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 Miyamoto	Dean, Arts, Media, Business and Computer Systems
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, 2009

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number *	Total Program Expenditures and Encumbrances
<b>U.S. Department of Education</b>			
Student Financial Aid Cluster:			
SEOG	84.007	N/A	\$ 244,500
Administrative Allowance	84.063	N/A	8,181
Pell Grant	84.063	N/A	5,027,018
Federal Work Study	84.033	N/A	165,086
Direct Loans	84.268	N/A	1,325,843
Academic Competitiveness Grant	84.375	N/A	<u>1,400</u>
Total Student Financial Aid Cluster			<u>6,772,028</u>
TRIO Cluster:			
Educational Opportunity Centers	84.066A	N/A	219,813
Student Support Services	84.042A	N/A	272,523
Upward Bound	84.047A	N/A	<u>226,376</u>
Total TRIO Cluster			<u>718,712</u>
Higher Education Act:			
Veterans Education	84.120	N/A	6,880
Gear-Up	84.334A	N/A	1,716,394
Strengthening Institutions-Hispanic Serving Institutions	84.031S	N/A	<u>133,207</u>
Total direct from U.S. Department of Education			<u>1,856,481</u>
Pass Through the California Community College Chancellor's Office (CCCCO):			
Career and Technical Education (CTE):			
Perkins-Title I, Part C	84.048	13920	600,837
Perkins-Title IV	84.048	N/A	76,148
Perkins-Title II Tech Prep	84.243	13929	<u>78,974</u>
Total passed through from the CCCCCO:			<u>755,959</u>
Total U.S. Department of Education			<u>10,103,180</u>
<b>U.S. Department of Health and Human Services</b>			
Pass Through the California Department of Education (CDE):			
Temporary Assistance for Needy Families	93.558	N/A	48,398
Child Development Training Consortium	93.575	13967	<u>29,962</u>
Total U.S. Department of Health and Human Services			<u>78,360</u>
<b>U.S. Department of Agriculture</b>			
Pass Through the California Department of Education (CDE):			
Child Nutrition	10.555	03755	<u>50,660</u>
Total U.S. Department of Agriculture			<u>50,660</u>
<b>Total Federal Programs</b>			<u>\$ 10,232,200</u>
<b>Reconciliation to Federal Revenues:</b>			
Total Federal Expenditures			\$ 10,232,200
Revenues in excess of expenditures:			
Administrative Allowance			<u>27,532</u>
<b>Total Federal Grants</b>			<u>\$ 10,259,732</u>

\* Pass-Through number is either not available or not applicable.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE

For the Fiscal Year Ended June 30, 2009

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	\$ 326,324	\$ 31,734	\$	\$	\$ 358,058	\$ 358,058
Apprentice Allowance	1,273,349				1,273,349	1,273,349
Capacity Building Nursing Grant	15,104				15,104	15,104
Board Financial Assistant Program	551,820		55,661		496,159	496,159
Block Grant - Instructional Materials	611,999		418,530		193,469	193,469
CalWORKS	279,324			34,246	245,078	245,078
Disabled Student Programs & Services	1,182,400		41,881		1,140,519	1,140,519
Extended Opportunity Programs & Services	1,306,209		100,268		1,205,941	1,205,941
Faculty Work Experience	686				686	686
Matriculation	1,693,879		342,023		1,351,856	1,351,856
Part-Time Faculty	859,775				859,775	859,775
Faculty and Staff Diversity	20,536				20,536	20,536
Telecommunications and Technology	36,036				36,036	36,036
California Articulation Number System	4,000		2,312		1,688	1,688
Telecommunications and Technology Infrastructure Program & E-Conferencing	2,728,746	196,490			2,925,236	2,925,236
3C Media Solutions	2,041,036	370,249			2,411,285	2,411,285
Basic Skills	377,978		377,978		-	-
Total State Program Expenditures	\$ 13,309,201	\$ 598,473	\$ 1,338,653	\$ 34,246	\$ 12,534,775	\$ 12,534,775

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, 2009**

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
<b>A. Summer Intersession (Summer 2008 only)</b>			
1. Noncredit <sup>1</sup>	253.45		253.45
2. Credit	1,708.15		1,708.15
<b>B. Summer Intersession (Summer 2009 - Prior to July 1, 2009)</b>			
1. Noncredit <sup>1</sup>	-		-
2. Credit	163.47		163.47
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	12,744.04		12,744.04
(b) Daily Census Contact Hours	856.20		856.20
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit <sup>1</sup>	1,100.05		1,100.05
(b) Credit	482.62		482.62
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,385.10		2,385.10
(b) Daily Census Contact Hours	768.02		768.02
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
<b>D. Total FTES</b>	<u>20,461.10</u>		<u>20,461.10</u>
<b>Supplemental Information (subset of above information)</b>			
E. In-Service Training Courses (FTES)	33.66		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit <sup>1</sup>	811.46		
(b) Credit	814.63		
<b><u>CCFS 320 Addendum</u></b>			
CDCP Noncredit FTES	706.54		
<b>Centers FTES</b>			
(a) Noncredit	283.09		
(b) Credit	1,756.83		

<sup>1</sup> 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, 2009**

	Proposition M Bond Construction <u>Fund</u>
June 30, 2009 Annual Financial and Budget Report Fund Balance (CCFS-311)	<u>\$107,007,491</u>
Adjustments and Reclassifications:	
Understatement of cumulative unrealized gain - Cash with County	<u>600,407</u>
Net Adjustments and Reclassifications	<u>600,407</u>
June 30, 2009 Audited Fund Balance	<u>\$107,607,898</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 adjustment for fair market value is a measurement at a point in time that is not realized through an actual transaction.
3. The Associated Students Trust Fund reflected an ending fund balance of \$182,625 on the CCFS-311; of this amount, \$112,770 is shown as funds held in trust leaving an ending fund balance of \$69,855.

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) 2010		2009		2008		2007	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>GENERAL FUND:</b>								
<b>Revenue</b>								
Federal	\$ 5,676,112	4.44	\$ 3,607,979	2.95	\$ 3,846,017	3.07	\$ 3,554,041	3.04
State	47,643,399	37.25	54,882,436	44.81	47,369,928	37.85	51,016,426	43.62
County and local	68,937,475	53.90	70,807,104	57.80	70,570,412	56.39	67,770,239	57.94
Total revenue	122,256,986	95.59	129,297,519	105.56	121,786,357	97.31	122,340,706	104.60
<b>Expenditures</b>								
Academic salaries	49,147,729	38.43	49,299,931	40.25	50,225,161	40.13	45,135,069	38.59
Classified salaries	31,318,097	24.49	30,260,422	24.71	30,988,244	24.76	27,955,572	23.90
Employee benefits	24,713,980	19.32	23,057,060	18.82	23,498,889	18.78	21,747,502	18.59
Supplies and materials	2,373,121	1.86	1,657,056	1.35	2,236,850	1.79	2,313,006	1.98
Other operating expenses & services	14,518,009	11.35	15,543,011	12.69	14,623,603	11.68	12,797,905	10.94
Capital outlay	1,935,936	1.51	1,644,328	1.34	2,415,789	1.93	3,722,616	3.18
Other uses (net)	3,892,937	3.04	1,026,149	0.84	1,162,046	0.93	3,293,671	2.82
Total expenditures	127,899,809	100.00	122,487,957	100.00	125,150,582	100.00	116,965,341	100.00
Change in fund balance	\$ (5,642,823)	(4.41)	\$ 6,809,562	5.56	\$ (3,364,225)	(2.69)	\$ 5,375,365	4.60
Ending fund balance	\$ 15,663,032	12.25	\$ 21,305,855	17.39	\$ 14,496,293	11.58	\$ 17,860,518	15.27
Full-time equivalent students	20,500		20,461		20,004		19,406	
Total long-term debt	\$ 162,858,217		\$ 165,417,004		\$ 171,613,382		\$ 174,301,889	

**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 2007 and 2008 excludes the actuarially determined liability for retiree benefits as explained in Note 12.

See the accompanying notes to the supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended June 30, 2009**

**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, 2009 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, 2009, and have issued our report thereon dated December 14, 2009. 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 opinion 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.

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.

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

A material weakness is a 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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 14, 2009





**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, 2009. 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, 2009.

**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 14, 2009



## 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, 2009, and have issued our report thereon dated December 14, 2009.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with the Chancellor's Office's California Community Colleges Contracted District Audit Manual (CDAM). Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination:

- 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.

## REPORT ON STATE COMPLIANCE

- 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.
- 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.

## REPORT ON STATE COMPLIANCE

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

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

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

December 14, 2009



## **FINDINGS AND RECOMMENDATIONS**

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**SUMMARY OF AUDITOR RESULTS**  
**June 30, 2009**

*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?        Yes   X   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, 84.268 and 84.375 84.048 and 84.243	Student Financial Assistance Cluster of Programs Career and Technical Education

Dollar threshold used to distinguish between Type A  
and Type B programs: \$ 306,966

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, 2009**

There were no findings and questioned costs related to basic financial statements for the year ended June 30, 2009.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FEDERAL AWARDS**  
**June 30, 2009**

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2009.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2009

Prior Year Finding No.	Finding	Recommendation	Current Status
08-1	STUDENT ACCOUNTS RECEIVABLE		
	Original Finding 06-2		
	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.	The District should maintain a listing of accounts receivable that agrees to or is reconciled to the general ledger balance.	Substantially implemented.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2009**

Prior Year Finding No.	Finding	Recommendation	Current Status
08-2	<u><b>CASH DISBURSEMENTS</b></u>		
	<b>Original Finding 07-3</b>		
	During our testing of the cash disbursements process we noted the following deficiencies:	We recommend the following:	
	<ul style="list-style-type: none"> <li>• Proper supporting documentation was missing for two out of 40 disbursements tested.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented.</li> </ul>
	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• The CalCard policy for spending limits should be reviewed and controls should be implemented to adhere to the policy established.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant improvement noted.</li> </ul>
	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented.</li> </ul>
	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Assign an employee independent of the department or utilize the internal audit position to review that the policies and procedures are being followed.</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented.</li> </ul>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2009**

<u>Prior Year Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
08-3	<p><u><b>INFORMATION TECHNOLOGY INTERNAL CONTROLS</b></u></p> <p>During our review of the internal controls over information technology we noted the following deficiencies:</p> <ul style="list-style-type: none"> <li>• The computer system does not require passwords to be changed, especially for those who approve cash disbursement warrants.</li> <li>• 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.</li> </ul>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• Consult with the Information Technology Department about implementing a process to require all employees to change their passwords a minimum of twice a year.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented.</li> <li>• Implemented.</li> </ul>

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS

June 30, 2009

Prior Year Finding No.	Finding	Recommendation	Current Status
08-4	<b><u>DISASTER RECOVERY PLAN</u></b>  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.	A written plan should include items such as: <ul style="list-style-type: none"> <li>• Recovery roles and responsibilities</li> <li>• Emergency contacts</li> <li>• Prioritization of systems</li> <li>• Recovery procedures</li> <li>• Vendor contacts</li> </ul> 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.	Substantially implemented.