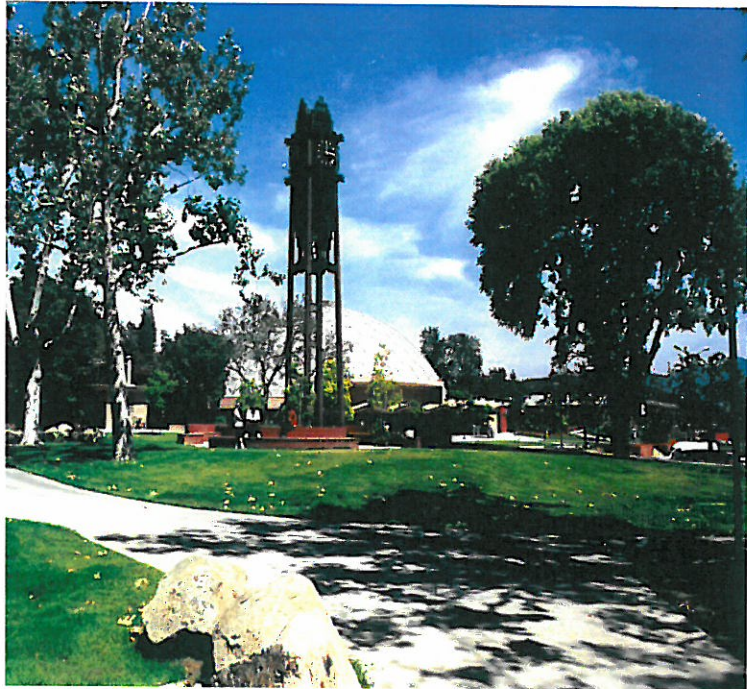


**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SAN DIEGO COUNTY**

**REPORT ON  
AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
INCLUDING REPORTS ON COMPLIANCE  
June 30, 2011**



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**AUDIT REPORT**

**June 30, 2011**

**CONTENTS**

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	i-xv
<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>	7-33
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of Postemployment Healthcare Benefits Funding Progress .....	34
Notes to Required Supplementary Information .....	35
<b>SUPPLEMENTARY INFORMATION:</b>	
History and Organization.....	36
Schedule of Expenditures of Federal Awards.....	37-38
Schedule of State Financial Assistance.....	39
Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance .....	40
Reconciliation of Annual Financial and Budget Report With Audited Fund Balances .....	41
Schedule of General Fund Financial Trends and Analysis .....	42
Notes to Supplementary Information .....	43

# **PALOMAR COMMUNITY COLLEGE DISTRICT**

## **AUDIT REPORT**

**June 30, 2011**

### **CONTENTS**

	<u><b>Page</b></u>
<b>OTHER INDEPENDENT AUDITOR'S 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.....	44-45
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 .....	46-47
Independent Auditor's Report on State Compliance .....	48-50
<b>FINDINGS AND QUESTIONED COSTS:</b>	
Schedule of Findings and Questioned Costs – Summary of Auditor Results.....	51
Schedule of Findings and Questioned Costs Related to Financial Statements.....	52
Schedule of Findings and Questioned Costs Related to Federal Awards .....	53
Status of Prior Year Findings and Questioned Costs.....	54

## INDEPENDENT AUDITOR'S 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, 2011 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, 2011, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of postemployment healthcare benefits funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Palomar Community College District financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the 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 financial statements of Palomar Community College District. The supplementary section including the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
VICENTI, LLOYD & STUTZMAN LLP

December 9, 2011

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

**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, 2011. 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 received California Postsecondary Education Commission (CPEC) and Board of Governors (BOG) approval for its North Education Center which is currently under development in the northern part of its geographical boundaries and is anticipated to open in late 2014 or early 2015. The District also purchased a site in June 2010, which has an existing three-story "shell" building, a parking garage, and surface parking along with site improvements on the approximately 28 acre site in the community of Rancho Bernardo, for a future education center to serve the southern portion of the District's boundaries.

The Palomar College District serves approximately 27,500 full-time and part-time students each fall and spring semester, while about 13,700 students attend during summer semester. Approximately 32% of our students are enrolled full-time, while about 60% are enrolled part-time in credit classes, and 8% are enrolled in non-credit classes. About 61% of our students are aged 24 or younger, while 31% are 25 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 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.

## PALOMAR COMMUNITY COLLEGE DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

#### **Financial and Enrollment Highlights**

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

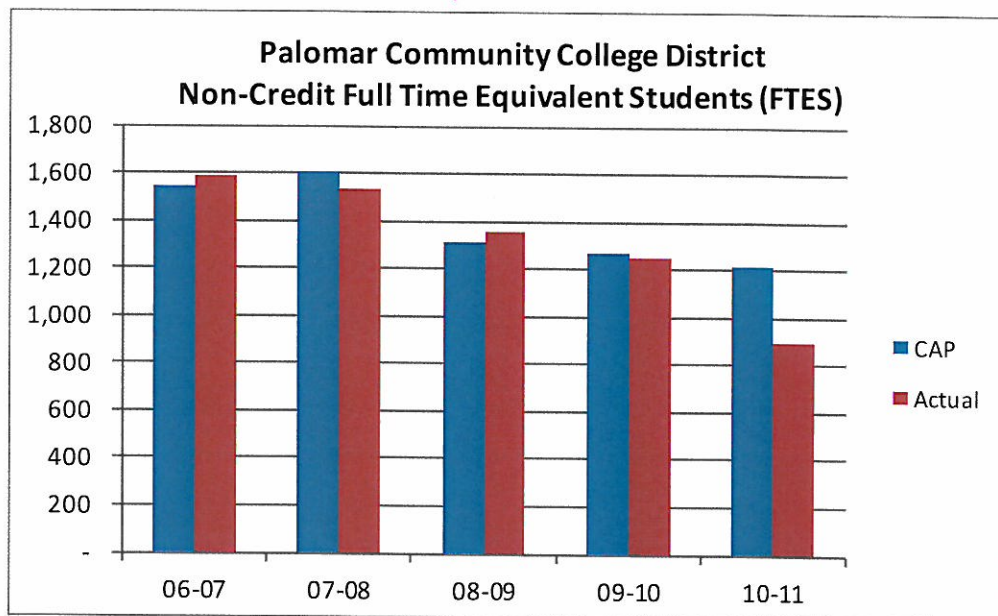
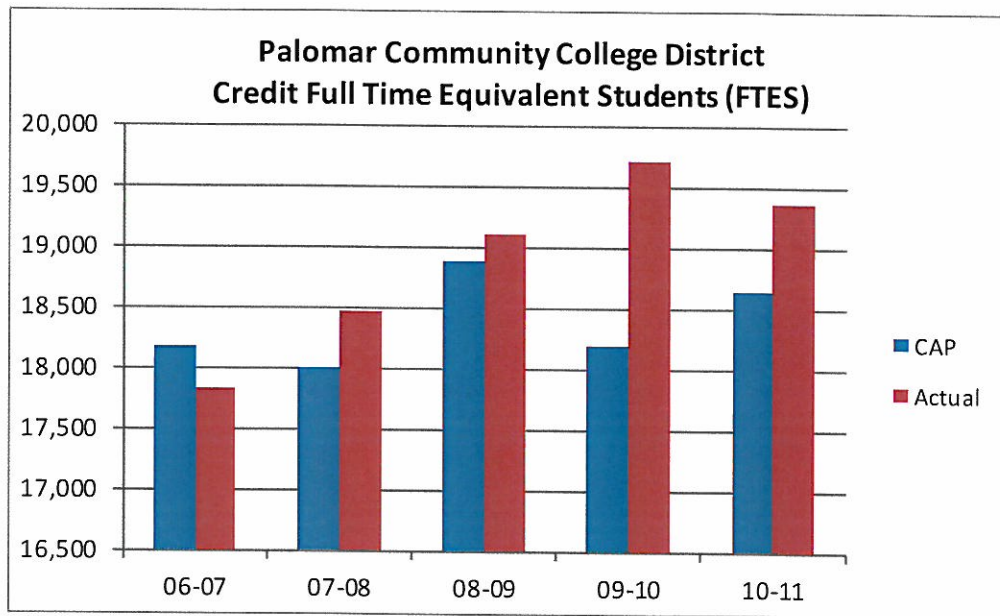
- The Statement of Net Assets
- The Statement of Revenue, Expenses and Changes in Net Assets
- The Statement of Cash Flows

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

The State of California's economic, budgetary, and fiscal crisis continued during fiscal year (FY) 2010-11 and continues to have a major impact on Palomar College. The 3.39% reduction in the amount of funded FTES (full time equivalent students) the State applied in FY 2009-10 has not been reinstated. The State has also persisted in applying deficit coefficients to calculated apportionment revenues. This will possibly be partially offset by a projected 2.21% growth factor for FY 2010-11 which has not been distributed yet. This decrease in apportionment revenue occurs at a time when Palomar College and other community colleges as a whole are experiencing tremendous enrollment growth potential due primarily to the downturn in the economy, which has necessitated individuals to seek new job skills training in unprecedented numbers; state cuts to other institutions of higher education, which has limited transferability opportunities; and, increasing District operating costs. In addition, the State's fiscal situation has resulted in its engaging in "internal borrowing" through an increasing practice of deferring of apportionment payments to the colleges.

For FY 2010-11 the District's total actual FTES decreased approximately 1.8% for credit and decreased 28.4% for non-credit courses which resulted in an overall decrease of 3.4%. The change was a conscious shift in scheduled offerings due to the previously discussed state impacts. A District's "CAP" (maximum funded FTES) for a fiscal year represents a benchmark for growth that the State has determined it would 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 could change several times during a fiscal year depending on various factors and would be 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 would not be known at the District level until February or March of the year after the fiscal year has ended (in this case February or March 2012), which is when all the final FTES has been reported and calculated system-wide. 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, 2011**





**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

**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, 2011**

A Statement of Net Assets as of June 30, for each year is summarized below:

	<i>(In Millions of Dollars)</i>	
	<b>2010</b>	<b>2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 89.1	\$ 252.8
Investments	0.2	0.2
Receivables	21.0	15.8
Prepaid expenses	0.1	0.2
Total current assets	<u>110.4</u>	<u>269.0</u>
Non-current assets:		
Restricted cash and cash equivalents	14.4	14.7
Capitalized fees	1.4	2.5
Capital assets, net	<u>189.2</u>	<u>216.0</u>
Total non-current assets	<u>205.0</u>	<u>233.2</u>
<b>TOTAL ASSETS</b>	<u>\$ 315.4</u>	<u>\$ 502.2</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9.9	\$ 9.8
Deferred revenue	2.2	1.7
Compensated absences	3.6	3.8
Long-term liabilities	<u>4.0</u>	<u>7.6</u>
Total current liabilities	<u>19.7</u>	<u>22.9</u>
Non-current liabilities:		
Long-term liabilities less current portion	<u>161.2</u>	<u>334.5</u>
Total non-current liabilities	<u>161.2</u>	<u>334.5</u>
<b>TOTAL LIABILITIES</b>	<u>180.9</u>	<u>357.4</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	78.7	89.4
Restricted	29.9	29.9
Unrestricted	<u>25.9</u>	<u>25.5</u>
<b>TOTAL NET ASSETS</b>	<u>134.5</u>	<u>144.8</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 315.4</u>	<u>\$ 502.2</u>

Note: Certain reclassifications have been made to the 2010 financial information to conform to current year presentation.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

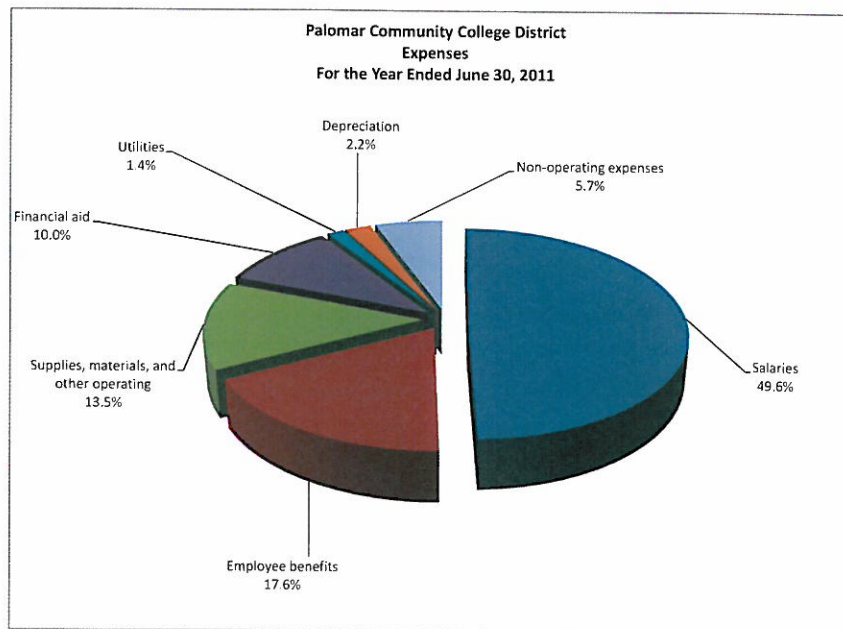
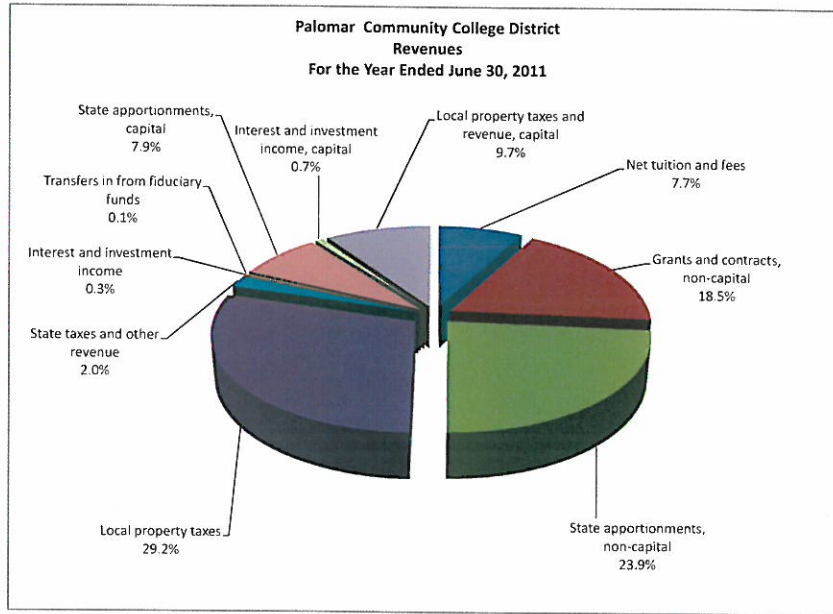
- Cash and cash equivalents increased over \$163 million which was due to Series B and B-1 of the District's Proposition M bonds being issued in the amount of \$175 million. This was offset by the Proposition M bond funds being spent down from Series A. Over 99% of the cash balance is cash deposited in the San Diego County Treasury; approximately 1% is in other various investments related to bond activities.
- The majority of the accounts receivable balance is usually from federal and state sources for grant and entitlement programs and State funded projects. For FY 2010-11, accounts receivable decreased as the State paid funds due to Palomar College for capital expenditures on the Multi-Disciplinary Instructional Building.
- Accounts payable represents amounts due as of the fiscal year end for goods and services received as of June 30, 2011. The total current liabilities of \$22.9 million consist of the above mentioned accounts payable as well as other accrued liabilities and the current portion of General Obligation Bonds, Lease Revenue Bonds and Lease Revenue Refunding Bonds 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 increase in Long-term Liabilities was due to the issuance of Proposition M, Series B and B-1.
- Palomar College currently has four debt issues outstanding that amount to \$336.6 million; \$3.8 million of this total is related to Lease Revenue Refunding Bonds, \$2.5 million is related to Lease Revenue Bonds, and \$330.3 million is related to the three debts created by the General Obligation Bonds issued in May 2008 for Proposition M, Series A and General Obligation Bonds issued in October 2010 for Proposition M, Series B and B-1. An additional long-term debt of \$2.2 million is 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, 2011**





**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

A Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30 each year.

	<i>(In Millions of Dollars)</i>	
	<u>2010</u>	<u>2011</u>
Operating Revenue		
Net tuition and fees	\$ 14.4	\$ 12.9
Grants and contracts, non-capital	<u>28.7</u>	<u>30.7</u>
Total operating revenues	<u>43.1</u>	<u>43.6</u>
Operating Expenses		
Salaries and benefits	103.0	104.8
Supplies and other expenses	22.1	23.3
Financial aid	11.3	15.5
Depreciation	<u>2.8</u>	<u>3.3</u>
Total operating expenses	<u>139.2</u>	<u>146.9</u>
Operating Loss	<u>(96.1)</u>	<u>(103.3)</u>
Non-operating revenues (expenses)		
State apportionments, non-capital	35.0	39.7
Local property taxes	51.0	48.5
State taxes and other revenue	3.3	3.3
Interest and investment income	0.5	0.4
Transfers, net	0.2	0.2
Other non-operating expenses, net	<u>(7.3)</u>	<u>(8.9)</u>
Total non-operating revenues (expenses)	<u>82.7</u>	<u>83.2</u>
Other revenues, expenses, gains or losses		
State apportionments, capital	20.3	13.1
Local property taxes, capital	10.6	16.1
Interest and investment income, capital	<u>0.8</u>	<u>1.2</u>
Total other revenues, expenses, gains or losses	<u>31.7</u>	<u>30.4</u>
Change in Net Assets	18.3	10.3
Net assets, beginning of year	<u>116.2</u>	<u>134.5</u>
Net assets, end of year	<u>\$ 134.5</u>	<u>\$ 144.8</u>

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

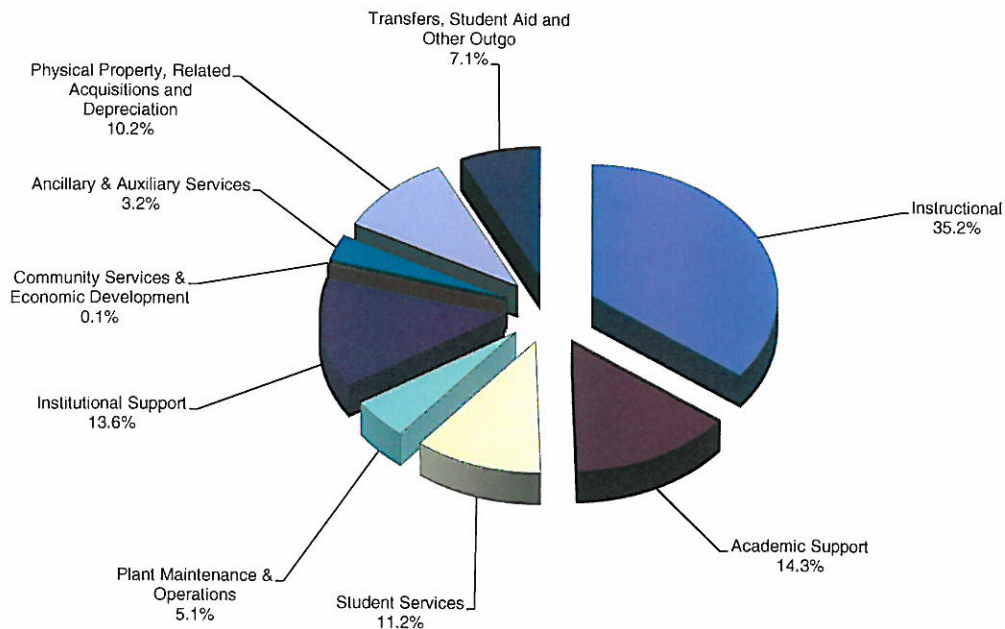
**June 30, 2011**

- Tuition and fees are generated by the resident, non-resident, and international students attending Palomar College, including fees such as health fees, parking fees, community services classes and other related fees. In FY 2010-11, enrollment fees for non-residents decreased from \$190 per unit to \$185. This decrease, coupled with a decrease in FTES numbers accounted for the decrease in revenue.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program. The District was the recipient of several federal grants which accounted for the increase in revenue.
- Total operating expenses increased over the prior fiscal year as a result of several factors. Benefit costs continued to rise, both in health care and retirement. Fortunately increases in these costs were offset by significant savings experienced by the continuation of a modified hiring freeze enacted years earlier. Personnel costs made up 82% of the total operating expenses excluding depreciation and financial aid for all funds. The balance of the operating expenses is for supplies, other services, and capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense. Financial Aid increased significantly 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. Because the State has projected a growth percentage of 2.21% for FY 2010-11 this amount showed an increase when compared to FY 2009-10. An area of significant decrease in revenue was local property taxes. Local property taxes are received through the Auditor-Controller's Office for San Diego County. The amount received for property taxes is deducted from the total State general apportionment amount calculated by the State for the District. As the County continues to experience decreased property valuations, and less volume of sales, the amount of revenue from property taxes continue to decline. This year the decrease was 5%.
- The revenue category entitled "State apportionments, capital" is the amount of capital outlay, scheduled maintenance, architectural barrier removal and hazardous substance funding received from the State through the Department of Finance. The State apportionment money decreased significantly due to the completion of the State funded Multi-Disciplinary Instructional Building. The increase of \$5.5 million in local property taxes, capital was due to more property taxes being collected for Proposition M bond payments.
- Functional expenses are presented on the next page by activity as adjusted for GASB Statement No. 34 and No. 35 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 FY 2010-11 is included in Note 14 of the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

Activity	Code	2008-09 Total	% of Total	2009-10 Total	% of Total	2010-11 Total	% of Total
Instructional	01-59	\$ 52,435,805	38.2%	\$ 50,136,121	36.0%	\$ 51,760,864	35.2%
Academic Support	60-62	21,193,146	15.5%	18,044,031	12.9%	21,026,943	14.3%
Student Services	63-64	15,791,296	11.5%	14,867,986	10.7%	16,388,402	11.2%
Operations & Maintenance of Plant	65	6,243,797	4.6%	5,171,865	3.7%	7,499,121	5.1%
Institutional Support	66-67	14,570,653	10.6%	14,645,613	10.5%	19,942,497	13.6%
Community Services & Economic Development	68	167,284	0.1%	166,046	0.1%	181,288	0.1%
Ancillary & Auxiliary Services	69-70	4,817,292	3.5%	3,999,503	2.9%	4,705,424	3.2%
Physical Property and Related Acquisitions and Depreciation	71	14,459,961	10.5%	20,970,218	15.1%	14,985,530	10.2%
Transfers, Student Aid and Other Outgo	72-73	7,496,032	5.5%	11,247,130	8.1%	10,452,238	7.1%
<b>Total</b>		<b>\$ 137,175,266</b>	<b>100.0%</b>	<b>\$ 139,248,513</b>	<b>100.0%</b>	<b>\$ 146,942,307</b>	<b>100.0%</b>

**Palomar Community College District**  
**Expenditures by Function/Activity**  
**Fiscal Year 2010-11**



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

**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, 2010 and 2011 is summarized and presented below:

	<i>(In Millions of Dollars)</i>	
	<b>2010</b>	<b>2011</b>
Cash Provided by (Used in)		
Operating activities	\$ (94.5)	\$ (98.5)
Non-capital financing activities	91.4	93.3
Capital and related financing activities	(49.8)	168.9
Investing activities	<u>1.0</u>	<u>0.3</u>
Net decrease in cash and cash equivalents	(51.9)	164.0
Cash balance, beginning of year	<u>155.4</u>	<u>103.5</u>
Cash balance, end of year	<u>\$ 103.5</u>	<u>\$ 267.5</u>



## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2011**

- 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. Benefit costs and increased financial aid to students increased this year resulting in an increase in the amount of cash used.
- The projected growth in apportionment explains the majority of the increase in non-capital financing activities.
- The primary amounts included in capital and related financing activities are any financing activities and the purchase of capital assets (building improvements and equipment). The District issued \$175 million of Proposition M, Series B and B-1 bonds which accounted for the majority of the increase in this category. This was offset by less expenditures from the Proposition M, Series A bonds and completion of the State funded Multi-Disciplinary Instructional Building.
- 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, 2011**

**Capital Asset and Debt Administration**

**Capital Assets**

- As of June 30, 2011, the District had \$216 million in net capital assets. Total capital assets of \$258.2 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 \$42.2 million. Depreciation expense of \$3.3 million was recorded for the fiscal year.
- The increase in Site and Site Improvements, along with a corresponding decrease in Construction in Progress, was related to the construction activities at the San Marcos campus. This included completion of the Health Sciences Building and the Multi-Disciplinary Instructional Building, and continued construction of the Industrial Technology Building and Planetarium.

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

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

	<i>(In Millions of Dollars)</i>	
	<b>2010</b>	<b>2011</b>
Land	\$ 59.8	\$ 59.8
Land improvements	3.7	3.6
Site and site improvements	43.9	99.9
Equipment	3.7	3.0
Construction in progress	<u>78.1</u>	<u>49.7</u>
Net capital assets	<u>\$ 189.2</u>	<u>\$ 216.0</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

**Debt**

At June 30, 2011, the District had \$338.8 million in debt; \$322.5 in General Obligations Bonds (along with \$7.8 million in related liabilities), \$2.5 million in Revenue Bonds payable, \$3.8 million in Lease Revenue Refunding Bonds and \$2.2 million in Other Post-Employment Benefits (OPEB). The major changes in the Long Term Debt occurred when the District refinanced their Certificates of Participation and issued \$175 million of Proposition M, Series B and B-1 bonds.

The recording of the District's OPEB liabilities begun in the fiscal year 2008-09 financial statements brought Palomar College in compliance with GASB No. 45, which requires districts to disclose a liability for future retiree benefits. See Note 12 to the financial statements for additional information.

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

**Summary of Long-Term Debt**  
**As of June 30 Each Year**

	<i>(In Millions of Dollars)</i>	
	<u>2010</u>	<u>2011</u>
Long-Term Debt		
COPs payable	\$ 4.3	\$
Lease revenue bonds payable	2.6	2.5
Lease revenue refunding bond		3.8
General obligation bond	155.2	322.5
Bond premium		6.6
Accreted interest		1.2
Other post-employment benefits (OPEB)	<u>1.8</u>	<u>2.2</u>
Total long-term debt	163.9	338.8
Less current portion	<u>2.7</u>	<u>4.4</u>
Long-term portion	<u>\$ 161.2</u>	<u>\$ 334.4</u>

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

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

**June 30, 2011**

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

The economic, budgetary, and fiscal position of the State continues to create challenges not only for Palomar Community College District, but for all community colleges system-wide. The State enacted more cost cutting measures in FY 2011-12, including a 6.2% reduction in funded FTES apportionment for each district/college. This was in addition to the 3.39% reduction in funded FTES apportionment which occurred in FY 2009-10 and which has not been reinstated. Some of this will be offset if the State funds the 2.21% growth they have projected to distribute for FY 2010-11. Every district/college is also feeling apprehensive over possible "Tier" cuts that could be triggered by the State on December 15, 2011. When the State finalized its budget in May, it assumed an additional \$4 billion in revenue would be received to help close its budget gap. A "Tier 1" cut would occur if only \$2 billion to \$3 billion of the revenues materialize. This cut would mean a reduction in apportionment of \$530,000 to Palomar. A "Tier 2" cut would occur if less than \$2 billion of the revenues are received and this could mean a further reduction of \$1.3 million to District. They are also projecting a deficit factor of .45%, meaning \$432,000 less in funding to the District. These State actions have necessitated expenditure cuts at Palomar, including a continuation of the modified hiring freeze, and a reduction in the amount of class sections being offered. The District has built these potential cuts into their Adopted Budget for FY 2011-12.

With no cost of living increase projected from the State for yet another fiscal year, increasing utility rates, potential water shortages, and rising electricity costs and increases in power volume usage as new buildings come on board at the District, the college must plan how to address these concerns in future budget years. Increases to health care costs, along with potential significant increases in the PERS rates add to an atmosphere of uncertainty. The District's FY 2011-12 Adopted Budget did not provide any additional contribution beyond the "pay as you go" amount for the unfunded retiree benefits. However, in November 2011 the Governing Board approved additional funding for the past service liability for current retirees' unfunded health benefits.

Because the State categorical funding cuts are expected to continue through FY 2012-13, the general fund will have to maintain its funding of the categorical areas in FY 2011-12 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, 2011

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 252,779,676
Investments	193,956
Accounts receivable, net	15,835,026
Due from fiduciary funds	8,543
Prepaid expenses	187,958

Total current assets	<u>269,005,159</u>
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Non-current assets:

Restricted cash and cash equivalents	14,713,523
Capitalized fees	2,488,072
Capital assets, net of accumulated depreciation	216,013,024

Total non-current assets	<u>233,214,619</u>
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<b>TOTAL ASSETS</b>	<b><u>\$ 502,219,778</u></b>
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**LIABILITIES**

Current liabilities:

Accounts payable	\$ 6,804,338
Accrued liabilities	3,036,844
Due to fiduciary funds	5,291
Deferred revenue	1,737,511
Compensated absences	3,824,823
Accrued interest payable	3,127,200
Lease revenue bonds payable - current portion	75,000
Lease revenue refunding bonds payable - current portion	380,000
General obligation bonds payable - current portion	3,955,000

Total current liabilities	<u>22,946,007</u>
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Non-current liabilities:

Lease revenue bonds payable	2,420,000
Lease revenue refunding bonds payable	3,400,000
General obligation bonds payable	318,573,901
Bond premium - general obligation bonds	6,593,282
Accreted interest	1,214,579
Other post-employment benefits (OPEB)	2,235,928

Total non-current liabilities	<u>334,437,690</u>
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<b>TOTAL LIABILITIES</b>	<b><u>357,383,697</u></b>
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**NET ASSETS**

Invested in capital assets, net of related debt	89,363,447
Restricted for	
Capital projects	14,180,551
Debt service	10,468,886
Other special services	5,355,324
Unrestricted	25,467,873

<b>TOTAL NET ASSETS</b>	<b><u>144,836,081</u></b>
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<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 502,219,778</u></b>
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See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For the Fiscal Year Ended June 30, 2011**

**OPERATING REVENUES**

Tuition and fees (gross)	\$ 17,584,821
Less: scholarship discounts & allowances	<u>(4,728,672)</u>
Net tuition and fees	<u>12,856,149</u>
Grants and contracts, non-capital:	
Federal	19,243,560
State	8,195,024
Local	<u>3,351,427</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>43,646,160</b></u>

**OPERATING EXPENSES**

Salaries	77,322,452
Employee benefits	27,480,683
Supplies, materials, and other operating expenses and services	21,065,441
Financial aid	15,515,769
Utilities	2,229,462
Depreciation	<u>3,328,500</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>146,942,307</b></u>

**OPERATING LOSS** (103,296,147)

**NON-OPERATING REVENUES (EXPENSES)**

State apportionments, non-capital	39,699,105
Local property taxes	48,491,440
Other local revenues	276
State taxes and other revenue	3,351,019
Interest and investment income	439,002
Transfers in from fiduciary funds, net	162,912
Interest expense	<u>(8,938,212)</u>

**TOTAL NON-OPERATING REVENUES (EXPENSES)** **83,205,542**

**LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES** **(20,090,605)**

**OTHER REVENUES, EXPENSES, GAINS AND LOSSES**

State apportionments, capital	13,050,832
Local property taxes and revenue, capital	16,113,588
Interest and investment income, capital	<u>1,244,368</u>
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<u><b>30,408,788</b></u>

**INCREASE IN NET ASSETS** 10,318,183

**NET ASSETS - BEGINNING OF YEAR** 134,517,898

**NET ASSETS - END OF YEAR** **\$ 144,836,081**

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 13,161,499
Federal grants and contracts	19,140,405
State grants and contracts	8,876,159
Local grants and contracts	3,927,188
Payments to suppliers	(19,708,466)
Payments to/on-behalf of employees	(108,539,210)
Payments to/on-behalf of students	(15,417,651)
Net amounts due to fiduciary funds	<u>(1,966)</u>
Net cash used by operating activities	<u>(98,562,042)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	38,231,623
Property taxes	48,491,440
Grants and gifts for other than capital purposes	6,329,105
Net transfers from fiduciary funds	<u>233,043</u>
Net cash provided by non-capital financing activities	<u>93,285,211</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State apportionment for capital purposes	18,445,985
Interest on capital investments	1,210,846
Property taxes - capital	16,113,864
Proceeds from issuance of bonds	180,280,465
Purchase of capital assets	(31,911,866)
Principal paid on capital debt	(6,710,000)
Interest paid on capital debt	<u>(8,503,214)</u>
Net cash provided by capital and related financing activities	<u>168,926,080</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>323,692</u>
Net cash provided by investing activities	<u>323,692</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 163,972,941

CASH BALANCE - BEGINNING OF YEAR 103,520,258

CASH BALANCE - END OF YEAR \$ 267,493,199

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2011

Reconciliation of Operating Loss to  
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (103,296,147)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	3,328,500
Changes in assets and liabilities:	
Receivables, net	1,510,762
Due to fiduciary funds, net	(1,964)
Prepaid expenses	(73,777)
Accounts payable and accrued liabilities	153,878
Deferred revenue	(429,725)
Compensated absences	<u>246,431</u>
Net cash used by operating activities	<u>\$ (98,562,042)</u>

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2011**

**ASSETS**

Cash in county treasury	\$ 1,766,610
Cash on hand and in banks	124,198
Cash collections awaiting deposit	6,302
Accounts receivable:	
Due from governmental funds	5,291
Miscellaneous	26,735
<b>TOTAL ASSETS</b>	<u>1,929,136</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	5,158
Due to governmental funds	8,543
Deferred revenue	57,015
Amounts held for others	40,726
<b>TOTAL LIABILITIES</b>	<u>111,442</u>

**NET ASSETS**

Unrestricted	<u>1,817,694</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,817,694</u>

See the accompanying notes to the financial statements.



PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Fiscal Year Ended June 30, 2011

ADDITIONS

Student fees	\$ 296,182
Interest and investment income	12,292
Contributions and other local revenues	490,066
<b>TOTAL ADDITIONS</b>	<u>798,540</u>

DEDUCTIONS

Salaries	419
Supplies and materials	27,842
Other operating expenses and services	94,524
Capital outlay	902
Student financial aid	510,709
<b>TOTAL DEDUCTIONS</b>	<u>634,396</u>

Excess of additions over deductions	<u>164,144</u>
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OTHER SOURCES (USES)

Transfers in from governmental funds	32,619
Transfers out to governmental funds	(195,531)
<b>TOTAL OTHER SOURCES (USES)</b>	<u>(162,912)</u>

<b>CHANGE IN NET ASSETS</b>	1,232
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<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,816,462</u>
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<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,817,694</u>
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See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**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, 2011

**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, 2011

**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, 2011

**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. All material receivables are considered fully collectible.

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, 2011, 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, 2011

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

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

4. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants, contracts and debt service requirements.

5. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings, renovations to building and infrastructure with a unit cost of \$100,000 or more, and land and site improvements, with a unit cost of \$50,000 or more, that significantly increase the value or extend the useful life of the structure, are capitalized. Interest incurred during construction is not capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 50 years for buildings and certain major building and site improvements, 15 years for modular buildings and land improvements, 5 to 8 years for equipment and 3 years for technology. Land and construction in progress are not depreciated.

6. Accounts Payable, Accrued Liabilities and Accrued Interest Payable

Accounts payable consists of amounts due to vendors. Accrued liabilities consist of salaries and benefits payable and load banking hours as described on the next page. Accrued interest is the amount due on general obligation bonds at fiscal year end.



PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

7. 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.

8. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as liabilities of the District as compensated absences in the Statement of Net Assets.

The District has accrued a liability for the amounts attributable to load banking hours within accounts payable. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave.

Accumulated employee sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires and within the constraints of the appropriate retirement systems.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

9. Net Assets

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties 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.

10. State Apportionments

Certain current year apportionments from the State are based upon various financial and statistical information of the previous year.

Any prior year corrections due to the recalculation in February of 2012 will be recorded in the year computed by the State.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

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

**11. Property Taxes**

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has not been recognized in the General Fund for property taxes due to the fact that any receivable is offset by a payable to the State for apportionment purposes. Property taxes for debt service purposes have not been accrued in the basic financial statements as the amount is not material.

**12. On-Behalf Payments**

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' 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 \$835,000 for STRS.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

13. Classification of Revenues

The District has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and Federal and most State and local grants and contracts.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as non-operating revenues by GASB Statement 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*.

14. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

15. Estimates

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

16. Minimum Reserve Policy

The District has adopted a minimum fund balance policy in order to protect against revenue shortfalls and unexpected one-time expenditures. The policy requires a reserve for economic uncertainties consisting of unassigned amounts of no less than 5% of unrestricted general fund expenditures which is in accordance with the minimum reserve balance recommended by the California Community College Chancellor's Office.

**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. As of June 30, 2011, \$1,067,121 of the District's bank balance of \$1,317,121 was exposed to credit risk as follows:

Collateral held by pledging bank's trust department but not specifically in the District's name	\$1,067,121
--	-------------

At June 30, 2011 and through December 31, 2013, the FDIC insurance level is \$250,000. The District's custodial credit risk is evaluated on amounts in excess of the FDIC insurance level.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

**A. Deposits (continued)**

**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 unamortized cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2011, as provided by the pool sponsor, was \$264,081,031. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

**B. Investments**

**Policies**

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, 2011.

Investments at June 30, 2011 are in internal investment pools and are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Moody's Rating</u>
Bayerische Landesbank	4/1/2031	\$ 193,956	AAA



PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

**B. Investments** (continued)

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. 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. Information about the exposure of the District's investments to this risk is provided above.

**Credit Risk**

Credit risk is the risk then on issuer of an investment will not fulfill its obligations. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. The District follows Government Code to reduce exposure to investment credit risk. Information about the District's investment ratings is provided above.

**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. This investment is 100% of the District's total investments.

**NOTE 3 - ACCOUNTS RECEIVABLE:**

The accounts receivable balance as of June 30, 2011 consists of the following:

Federal and State	\$10,802,716
Miscellaneous	4,579,590
Student fees, net	<u>452,720</u>
	<u>\$15,835,026</u>

# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### NOTE 4 - INTERFUND TRANSACTIONS:

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when the interfund transfer is transacted after the close of the fiscal year. Interfund activity between governmental funds has been eliminated in the basic financial statements.

### NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 59,765,578	\$	\$	\$ 59,765,578
Construction in progress	78,055,077	31,437,364	(59,781,742)	49,710,699
Total capital assets not being depreciated	<u>137,820,655</u>	<u>31,437,364</u>	<u>(59,781,742)</u>	<u>109,476,277</u>
<u>Capital Assets Being Depreciated:</u>				
Land improvements	14,851,995			14,851,995
Site and site improvements	59,762,045	57,958,841		117,720,886
Equipment	15,916,036	474,502	(200,576)	16,189,962
Total capital assets not being depreciated	<u>90,530,076</u>	<u>58,433,343</u>	<u>(200,576)</u>	<u>148,762,843</u>
<u>Less Accumulated Depreciation For:</u>				
Land improvements	(11,144,980)	(115,776)		(11,260,756)
Site and site improvements	(15,815,972)	(1,944,799)		(17,760,771)
Equipment	(12,137,220)	(1,267,925)	200,576	(13,204,569)
Total accumulated depreciation	<u>(39,098,172)</u>	<u>(3,328,500)</u>	<u>200,576</u>	<u>(42,226,096)</u>
Governmental activities capital assets, net	<u>\$ 189,252,559</u>	<u>\$ 86,542,207</u>	<u>\$ (59,781,742)</u>	<u>\$ 216,013,024</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**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>
2011-12	\$ 152,190
2012-13	113,229
2013-14	68,961
2014-15	<u>67,466</u>
Total	\$ <u>401,846</u>

Current year expenditures for operating leases is approximately \$396,200. 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.

On September 16, 2010, the District paid off the COPs with proceeds from the Lease Revenue Refunding Bonds, Series 2010B. The principal amount paid was \$4,320,000. The proceeds were deposited in an escrow fund for future repayment. At June 30, 2011, the outstanding balance of the defeased debt to be paid by the escrow agent totaled \$3,970,000. These bonds are considered in-substance defeased and are not recorded on the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE 8 – LEASE REVENUE BONDS:**

**A. 2001 Series**

The District issued Lease Revenue Bonds Series 2001 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, 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
October 1, 2014		59,063	59,063
April 1, 2015	85,000	59,063	144,063
October 1, 2015		56,938	56,938
April 1, 2016	90,000	56,938	146,938
10/1/2016 - 4/1/2021	525,000	498,000	1,023,000
10/1/2021 - 4/1/2026	680,000	344,470	1,024,470
10/1/2026 - 4/1/2031	<u>880,000</u>	<u>139,914</u>	<u>1,019,914</u>
Total	<u>\$2,495,000</u>	<u>\$1,590,146</u>	<u>\$4,085,146</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 – LEASE REVENUE BONDS: (continued)

**B. 2010B Series**

The District issued Lease Revenue Refunding Bonds, Series 2010B in the amount of \$3,780,000 on September 16, 2010. The proceeds were deposited in an escrow fund for future repayment of the Certificates of Participation (COPs), see Note 7. The difference in cash flow requirements related to this refunding amounted to a savings of approximately \$477,900. The present value of economic gain to the District amounts to approximately \$425,000. These savings result in a recalculation of the bond repayment schedules and are included in the consolidated schedule noted on the subsequent page.

Amounts paid to the refunded debt escrow agent, in excess of outstanding debt at the time of payment is considered a deferred change on refunding. This amount was written off in the current fiscal year as it was not material to the financial statements.

Interest rates on the bonds range from 3.0% to 4.0% for the length of issuance. The bonds will mature on October 1, 2019. The source of revenue to pay off the debt will come from the General Fund. Future principal and interest payments are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 380,000	\$ 112,050	\$ 492,050
2013	395,000	100,425	495,425
2014	410,000	88,350	498,350
2015	420,000	75,900	495,900
2016	435,000	60,900	495,900
2017-2020	1,740,000	100,350	1,840,350
	<u>\$ 3,780,000</u>	<u>\$ 537,975</u>	<u>\$ 4,317,975</u>

# **PALOMAR COMMUNITY COLLEGE DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

### **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 through Proposition M. 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.

On October 28, 2010, the District issued General Obligation Bonds, Election of 2006, Series B of \$1,500,000 of current interest bonds, \$27,883,491 of capital appreciation bonds and \$62,115,410 of convertible capital appreciation bonds and Series B-1 of \$83,500,000 of Build America Bonds. The bonds will mature through 2046. The bonds were sold to finance the repair, construction, acquisition and equipping of certain District sites and facilities and to pay costs of issuance associated with the Bonds.

The Series B-1 bonds are designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009. With respect to the Series B-1 bonds, the District expects to receive, on or about each bond payment date, a cash subsidy payment from the United States Treasury equal to the amount of interest determined at a federal tax credit rate under Section 54A(b)(3) of the tax code. The District will deposit the cash subsidy with the County to be credited to the Bond Interest and Redemption Fund for debt service payments.

#### **Payments**

Series A interest due is payable semi-annually on May 1 and November 1 of each year commencing November 1, 2007. Series B and B-1 interest due is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2011. The principal with respect to the bonds is payable upon maturity or upon redemption in whole or in part at the corporate trust office of the Paying Agent. The bonds are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof.

Capital appreciation and convertible capital appreciation bonds issued for Series B have maturity dates from August 1, 2015 through August 1, 2035 and August 1, 2039 and August 1, 2045. Prior to the maturity date, the bond will accrete interest on the principal component.



# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### NOTE 9 - GENERAL OBLIGATION BONDS: (continued)

The outstanding bonded debt for Palomar Community College District at June 30, 2011 is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2010	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2011
2006A	5/2/2007	4.25% - 5.0%	2032	\$ 160,000,000	\$ 149,845,000	\$	\$ 2,315,000	\$ 147,530,000
2010B	10/28/2010	2.36% - 6.72%	2046	91,498,901		91,498,901		91,498,901
2010B-1	10/28/2010	7.19%	2046	83,500,000		83,500,000		83,500,000
				<u>\$ 334,998,901</u>	<u>\$ 149,845,000</u>	<u>\$ 174,998,901</u>	<u>\$ 2,315,000</u>	<u>\$ 322,528,901</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 and Series B included a premium of \$6,094,673 and \$1,501,564, respectively. These amounts are amortized using the straight-line method. Amortization of \$271,594 was recognized during the 2010-11 year.

In addition, associated issuance costs are recorded as capitalized fees on the statement of net assets and are amortized using the straight-line method to interest expense over the life of the liability. The Series A and Series B included issue costs of \$1,565,029 and \$1,205,662, respectively. These amounts are amortized using the straight-line method. Amortization of \$84,928 was recognized during the 2010-11 year.

The annual requirements to amortize all Proposition M bonds payable, outstanding as of June 30, 2011, are as follows:

Year Ended June 30,	Principal	Interest	Accreted Interest	Interest Subsidy	Total
2012	\$ 3,955,000	\$ 14,385,341	\$	\$ (2,563,816)	\$ 15,776,525
2013	2,745,000	12,936,565		(2,102,446)	13,579,119
2014	3,060,000	12,813,040		(2,102,446)	13,770,594
2015	3,395,000	12,675,340		(2,102,446)	13,967,894
2016	4,015,650	12,505,590	29,350	(2,102,446)	14,448,144
2017-2021	29,449,995	59,291,200	1,630,005	(10,512,230)	79,858,970
2022-2026	47,606,526	54,880,360	11,873,474	(10,512,230)	103,848,130
2027-2031	59,426,306	74,184,256	8,613,694	(10,512,230)	131,712,026
2032-2036	26,394,452	85,272,638	40,305,548	(10,512,230)	141,460,408
2037-2041	41,670,705	65,860,945	65,679,295	(10,512,230)	162,698,715
2042-2046	100,810,267	28,301,314	42,359,733	(7,660,716)	163,810,598
<b>Totals</b>	<u>\$ 322,528,901</u>	<u>\$ 433,106,589</u>	<u>\$ 170,491,099</u>	<u>\$ (71,195,466)</u>	<u>\$ 854,931,123</u>

# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

A schedule of changes in long-term debt for the year ended June 30, 2011 is shown below:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due in One Year
General obligation bonds:					
Bonds payable	\$149,845,000	\$174,998,901	\$ 2,315,000	\$322,528,901	\$ 3,955,000
Premium	5,363,312	1,501,564	271,594	6,593,282	
Accreted interest		1,214,579		1,214,579	
Certificates of participation (COPs)	4,320,000		4,320,000	-	
Lease revenue bonds	2,570,000		75,000	2,495,000	75,000
Lease revenue refunding bonds		3,780,000		3,780,000	380,000
Other post-employment benefits (OPEB)	1,868,695	367,233		2,235,928	
	<u>\$163,967,007</u>	<u>\$181,862,277</u>	<u>\$ 6,981,594</u>	<u>\$338,847,690</u>	<u>\$ 4,410,000</u>

Liabilities are liquidated by the General Fund for governmental activities, including lease revenue refunding bonds and net OPEB obligations. Lease revenue bond liabilities are liquidated by the Student Center Fee Fund. General obligation bond liabilities are liquidated through property tax collections as administered by the County Controller's office through the Proposition M Bond Interest and Redemption 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

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

**Funding Policy**

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

**Public Employees' Retirement System (PERS)**

**Plan Description**

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

**Funding Policy**

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The average required employer contribution for fiscal year 2010-11 was 10.707% 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, 2011**

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

**Contributions to STRS and PERS**

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

Year Ended June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2009	\$3,509,668	100%	\$2,545,033	100%
2010	3,392,467	100%	2,586,709	100%
2011	3,419,568	100%	2,856,834	100%

**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 August 1, 2010, the date of the latest actuarial valuation.

Retirees and beneficiaries eligible to receive benefits	386
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>708</u>
	<u>1,094</u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

**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 2011, the District contributed \$5,001,346 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, 2011, the Post Retirement Benefits Fund's ending fund balance was \$12,679,821. On November 8, as part of the District's funding plan, the Governing Board authorized a transfer of approximately \$1.8 million in 2011-12 and 2012-13 to an irrevocable trust fund with the Community College League of California.

**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 No. 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)	\$ 5,359,667
Interest on net OPEB obligation	93,435
Adjustment to annual required contribution	<u>(84,523)</u>
Annual OPEB cost (expense)	5,368,579
Contributions made	<u>(5,001,346)</u>
Change in net OPEB obligation	367,233
Net OPEB obligation - beginning of year	<u>1,868,695</u>
Net OPEB obligation - end of year	<u><u>\$ 2,235,928</u></u>

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

**Annual OPEB Cost and Net OPEB Obligation (continued)**

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

<b><u>Fiscal Year Ended</u></b>	<b><u>Annual OPEB Cost</u></b>	<b><u>Percentage of Annual OPEB Cost Contributed</u></b>	<b><u>Net OPEB Obligation</u></b>
6/30/2009	\$ 4,550,700	83.3%	\$ 759,905
6/30/2010	5,363,291	79.3%	1,868,695
6/30/2011	5,368,579	93.2%	2,235,928

**Funding Status and Funding Progress**

As of August 1, 2010, the most recent actuarial valuation date, the plan was completely unfunded. The actuarial accrued liability for benefits was \$78,499,867, and the unfunded actuarial accrued liability (UAAL) was also \$78,499,867. The covered payroll (annual payroll of active employees covered by the plan) was \$53,321,972, and the ratio of the UAAL to the covered payroll was 147.2%.

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 postemployment healthcare benefits 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.

## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

##### **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 August 1, 2010 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) using the "Building Block Method" as described in ASOP 27 paragraph 3.6.2, an annual healthcare cost trend rate of 4% and a 3% inflation assumption. Although the District has set aside funds of \$12,679,821, these assets are not considered plan assets as defined by GASB Statement No. 45; therefore an actuarial value of plan assets has not been determined. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was twenty-seven years.

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

The Palomar Community College District participates in five 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), Statewide Educational Wrap-Up Program (SEWUP) 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.



# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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 (SAFER) arranges for and provides a self-funded or additional insurance for excess liability coverage to various school districts and community college districts throughout California.

Statewide Educational Wrap-Up Program (SEWUP) is a consolidated construction insurance program covering the job-site risks of: District as Owner, Construction Manager, General Contractor, contractors and sub-contractors of all tiers. Membership is comprised of 400 California School and Community College Districts. Premiums are determined for each construction project or projects.

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. Financial information for CCLC is not readily available.

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

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

	SDCSFBC 6/30/2011 (Unaudited)	SWACC 6/30/2011 (Unaudited)	SAFER 6/30/2011 (Unaudited)	SEWUP 6/30/2011 (Unaudited)
Total assets	\$21,276,476	\$45,222,215	\$ 1,160,583	\$20,162,417
Total liabilities	<u>9,589,285</u>	<u>21,819,352</u>	<u>972,244</u>	<u>13,486,288</u>
Retained earnings	<u>\$11,687,191</u>	<u>\$23,402,863</u>	<u>\$ 188,339</u>	<u>\$ 6,676,129</u>
Total revenues	\$87,253,559	\$10,467,082	\$41,303,388	\$ 9,278,074
Total expenditures	<u>79,738,173</u>	<u>11,665,586</u>	<u>41,256,419</u>	<u>10,715,886</u>
Net change in retained earnings	<u>\$ 7,515,386</u>	<u>\$ (1,198,504)</u>	<u>\$ 46,969</u>	<u>\$ (1,437,812)</u>

# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Financial Aid and Other Outgo	Depreciation	Total
Instructional	\$ 38,772,139	\$ 11,196,368	\$ 1,792,357	\$	\$	\$ 51,760,864
Academic Support	12,914,312	4,730,154	3,382,477			21,026,943
Student Services	11,168,822	3,607,232	1,593,402	18,946		16,388,402
Operation & Maintenance of Plant	2,996,653	1,403,352	3,099,116			7,499,121
Institutional Support	8,567,512	5,630,574	4,251,641	1,492,770		19,942,497
Community Services and Economic Development	120,922	50,453	9,913			181,288
Ancillary Services and Auxiliary Operations	2,782,092	862,550	1,056,293	4,489		4,705,424
Physical Property and Related Acquisitions			8,109,210	3,547,820		11,657,030
Transfers, Student Aid and Other Outgo			494	10,451,744		10,452,238
Depreciation Expense					3,328,500	3,328,500
Total	<u>\$ 77,322,452</u>	<u>\$ 27,480,683</u>	<u>\$ 23,294,903</u>	<u>\$ 15,515,769</u>	<u>\$ 3,328,500</u>	<u>\$ 146,942,307</u>

### **NOTE 15 - COMMITMENTS AND CONTINGENCIES:**

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

The District has received State and Federal funds for specific purposes 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. As of June 30, 2011, the amount credited to the District to offset the debt is \$449,130.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

**C. Purchase Commitments**

As of June 30, 2011, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$20 million. Projects will be funded through Capital Outlay and Proposition M Bond Funds.

**D. Litigation**

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

**NOTE 16 – SUBSEQUENT EVENTS:**

**A. Land Purchase**

On July 22, 2011, the District purchased vacant land in San Marcos for approximately \$3.5 million. Proposition M bond proceeds were used for the acquisition of the property. The District's long-term use of this land has not been determined, but in the short-term it will serve as a parking lot for the workers involved in the current construction projects at the San Marcos Campus.

**REQUIRED SUPPLEMENTARY INFORMATION**

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF POST-EMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS**

For the Fiscal Year Ended June 30, 2011

<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%
8/1/2010	-	78,499,867	78,499,867	0%	53,321,972	147.2%

Note: Fiscal year 2009 was the implementation year of GASB Statement No. 45 and the District elected to implement prospectively, therefore, complete 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 \$12,679,821 for future retiree health care costs in the Post Retirement Benefits Fund.

On November 8, 2011, as part of the District's funding plan, the Governing Board authorized a transfer of approximately \$1.8 million in 2011-12 and 2012-13 to an irrevocable trust fund with the Community College League of California.

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, 2011**

**NOTE 1 - PURPOSE OF SCHEDULE:**

**A. Schedule of Post-employment 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 post-employment benefits other than pensions.

## **SUPPLEMENTARY INFORMATION**



## **PALOMAR COMMUNITY COLLEGE DISTRICT**

### **HISTORY AND ORGANIZATION**

**June 30, 2011**

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 San Marcos campus, Escondido Center campus and at six outreach sites located in Mt. Carmel, Camp Pendleton, Fallbrook, Ramona, Pauma, and Borrego Springs.

#### **GOVERNING BOARD**

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Mark R. Evilsizer, M.A.	President	2014
Darrell L. McMullen, M.B.A.	Vice President	2012
Rose Marie Dishman, Ph.D.	Secretary	2012
Nancy C. Chadwick, M.S.W., M.P.A.	Trustee	2012
Paul P. McNamara, B.A.	Trustee	2014

#### **DISTRICT EXECUTIVE OFFICERS**

Robert P. Deegan	Superintendent/President
Berta Cuaron	Assistant Superintendent/Vice President, Instruction
Mark Vernoy, Ph.D.	Interim 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
Norma Miyamoto	Dean, Arts, Media, Business and Computer Systems
Wilma Owens	Dean, Career, Technical and Extended Education
Steve McDonald	Dean, Languages and Literature
Daniel Sourbeer	Interim Dean, Math and the Natural and Health Sciences
Judy Cater	Interim 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, 2011

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number *	Total Program Expenditures and Encumbrances
<b>U.S. Department of Education</b>			
Direct:			
Student Financial Assistance Cluster:			
SEOG	84.007	N/A	\$ 270,600
Administrative Allowance	84.063	N/A	22,376
Pell Grant	84.063	N/A	13,031,777
Federal Work Study	84.033	N/A	196,496
Direct Loans	84.268	N/A	1,300,250
Academic Competitiveness Grant	84.375	N/A	3,469
Total Student Financial Assistance Cluster			14,824,968
TRIO Cluster:			
Educational Opportunity Centers	84.066	N/A	247,067
Student Support Services	84.042	N/A	360,984
Upward Bound	84.047	N/A	245,817
Total TRIO Cluster			853,868
Higher Education Act:			
Veterans Education	84.120	N/A	7,923
Gear-Up	84.334A	N/A	1,704,767
Strengthening Institutions-Hispanic Serving Institutions	84.031S	N/A	791,229
Total direct from U.S. Department of Education			2,503,919
Pass Through the California Community College Chancellor's Office (CCCCO):			
Career and Technical Education (CTE):			
Perkins-Title I, Part C	84.048	13920	656,451
Perkins-Title IV	84.048	N/A	53,684
Perkins-Title II Tech Prep	84.243	13929	69,465
Total passed through from the CCCCCO:			779,600
Pass Through from the California Department of Education (CDE):			
American Recovery and Reinvestment Act: State Fiscal Stabilization Fund	84.394	24997	49,016
Total U.S. Department of Education			19,011,371
<b>U.S. Department of Labor</b>			
Pass Through From San Diego Workforce:			
American Recovery and Reinvestment Act: Displaced Worker	17.260	607-01 M 1	3,967
Total U.S. Department of Labor			3,967

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal year Ended June 30, 2011

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number *	Total Program Expenditures and Encumbrances
<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	50,586
Child Development Training Consortium	93.575	13967	<u>26,243</u>
Total U.S. Department of Health and Human Services			<u>76,829</u>
<b>U.S. Department of Agriculture</b>			
Pass Through the California Department of Education (CDE):			
Child Nutrition	10.555	03755	<u>40,259</u>
Total U.S. Department of Agriculture			<u>40,259</u>
<b>U.S. Department of Justice</b>			
Direct			
Bulletproof Vest Partnership	16.607	N/A	<u>1,366</u>
Total U.S. Department of Justice			<u>1,366</u>
<b>National Science Foundation</b>			
Direct			
Advancing Geospatial Technology Pathways at Palomar College	47.076	N/A	<u>82,875</u>
Total National Science Foundation			<u>82,875</u>
<b>Total Federal Programs</b>			<u>\$ 19,216,667</u>
<b>Reconciliation to Federal Revenues:</b>			
Total Federal Expenditures			\$ 19,216,667
Revenues in excess of expenditures:			
Administrative Allowance			<u>26,893</u>
<b>Total Federal Grants</b>			<u>\$ 19,243,560</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, 2011**

Program Name	Program Revenues					Total Program Expenditures and Encumbrances
	Cash Received	Accounts Receivable	Deferred Income	Accounts Payable	Total	
State Categorical Aid Programs:						
Apprentice Allowance	\$ 645,236	\$	\$	\$	\$ 645,236	\$ 645,236
Associate Nursing Degree Grant	218,977	33,386			252,363	252,363
Basic Skills	186,955		186,955		-	-
Board Financial Assistant Program	523,488				523,488	523,488
CalWORKS	162,644			4,756	157,888	157,888
Cooperative Agencies Resources for Education	78,801			183	78,618	78,618
Disabled Student Programs & Services	725,770				725,770	725,770
Extended Opportunity Programs & Services	789,518				789,518	789,518
Faculty and Staff Diversity	9,016		1,691		7,325	7,325
Matriculation	810,264				810,264	810,264
Part-Time Faculty	421,311				421,311	421,311
Telecommunications and Technology						
Infrastructure Program & E-Conferencing	1,850,067		297,113		1,552,954	1,552,954
3C Media Solutions	1,877,651		87,100		1,790,551	1,790,551
Total State Programs	\$ 8,299,698	\$ 33,386	\$ 572,859	\$ 4,939	\$ 7,755,286	\$ 7,755,286

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, 2011**

	<u>ReCalc Period Data</u>	<u>Audit Adjustments<sup>2</sup></u>	<u>Revised Data</u>
<b>A. Summer Intersession (Summer 2010 only)</b>			
1. Noncredit <sup>1</sup>	159.75		159.75
2. Credit	1,888.96		1,888.96
<b>B. Summer Intersession (Summer 2011 - Prior to July 1, 2011)</b>			
1. Noncredit <sup>1</sup>	-		-
2. Credit	-		-
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,703.45		13,703.45
(b) Daily Census Contact Hours	993.69		993.69
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit <sup>1</sup>	737.23		737.23
(b) Credit	734.09		734.09
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,677.52		1,677.52
(b) Daily Census Contact Hours	356.20		356.20
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
<b>D. Total FTES</b>	<u>20,250.89</u>	<u>-</u>	<u>20,250.89</u>
<b>Supplemental Information (subset of above information)</b>			
E. In-Service Training Courses (FTES)	55.25		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit <sup>1</sup>	441.42		
(b) Credit	728.09		
<b><u>CCFS 320 Addendum</u></b>			
CDCP Noncredit FTES	646.63		
<b>Centers FTES</b>			
(a) Noncredit	229.37		
(b) Credit	1,644.43		

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

<sup>2</sup> See Finding 11-1

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, 2011**

The audit resulted in no adjustments to the fund balances reported on the June 30, 2011 Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles. Additional entries were made to comply with the GASB No. 34/35 reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

Note:

The Associated Students Trust Fund reflected an ending fund balance of \$119,206 on the CCFS-311; of this amount, \$40,726 is shown as funds held in trust leaving an ending fund balance of \$78,480.

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) 2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>GENERAL FUND:</b>								
<b>Revenue</b>								
Federal	\$ 5,875,069	4.91	\$ 4,597,204	3.93	\$ 5,169,275	4.43	\$ 3,607,979	2.95
State	40,306,361	33.76	50,649,373	43.34	46,397,214	39.72	54,882,436	44.81
County and local	66,293,752	55.53	64,286,975	55.01	68,573,189	58.70	70,807,104	57.81
Total revenue	<u>112,475,182</u>	<u>94.22</u>	<u>119,533,552</u>	<u>102.29</u>	<u>120,139,678</u>	<u>102.86</u>	<u>129,297,519</u>	<u>105.56</u>
<b>Expenditures</b>								
Academic salaries	45,800,364	38.36	47,255,030	40.44	46,574,801	39.88	49,299,931	40.25
Classified salaries	28,826,558	24.15	28,889,069	24.72	29,264,673	25.06	30,260,422	24.70
Employee benefits	27,946,483	23.41	25,238,189	21.60	23,920,261	20.48	23,057,060	18.82
Supplies and materials	1,927,160	1.61	1,959,574	1.68	1,913,221	1.64	1,657,056	1.35
Other operating expenses & services	12,201,915	10.22	11,191,711	9.58	12,021,347	10.29	15,543,011	12.69
Capital outlay	1,377,923	1.15	1,533,195	1.31	2,079,947	1.78	1,644,328	1.34
Other uses (net)	1,300,419	1.09	794,299	0.68	1,025,689	0.88	1,026,149	0.84
Total expenditures	<u>119,380,822</u>	<u>100.00</u>	<u>116,861,067</u>	<u>100.00</u>	<u>116,799,939</u>	<u>100.00</u>	<u>122,487,957</u>	<u>100.00</u>
Change in fund balance	\$ (6,905,640)	(5.78)	\$ 2,672,485	2.29	\$ 3,339,739	2.86	\$ 6,809,562	5.56
Ending fund balance	<u>\$ 20,412,439</u>	<u>17.10</u>	<u>\$ 27,318,079</u>	<u>23.38</u>	<u>\$ 24,645,594</u>	<u>21.10</u>	<u>\$ 21,305,855</u>	<u>17.39</u>
Full-time equivalent students	<u>18,567</u>		<u>20,251</u>		<u>20,932</u>		<u>20,461</u>	
Total long-term debt	<u>\$ 339,892,256</u>		<u>\$ 338,847,690</u>		<u>\$ 163,967,007</u>		<u>\$ 165,417,004</u>	

**IMPORTANT NOTES:**

All percentages are of total expenditures excluding contingencies.

The California Community College Chancellor's Office has provided guidelines that recommend a minimum ending fund balance being 5% of unrestricted expenditures.

See the accompanying notes to the supplementary information.



**PALOMAR COMMUNITY COLLEGE DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION**

**For the Fiscal Year Ended June 30, 2011**

**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, 2011 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. The Schedule of Federal Awards and the Schedule of State Financial Assistance is prepared 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 AUDITOR'S 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, 2011, and have issued our report thereon dated December 9, 2011. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

**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***

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 an instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 11-1.

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

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

  
VICENTI, LLOYD & STUTZMAN LLP

December 9, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON 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, 2011. 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, 2011.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

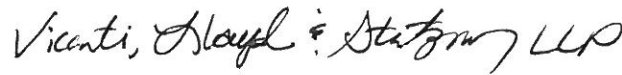
Internal Control Over Compliance

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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance such that there is a reasonable possibility, that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

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

  
VICENTI, LLOYD & STUTZMAN LLP

December 9, 2011



## INDEPENDENT AUDITOR'S 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 compliance of the Palomar Community College District (the District) with the types of compliance requirements described in the *2010-11 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office for the year ended June 30, 2011. The District's State compliance requirements are identified below. Compliance with the State laws and regulations as identified below 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 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 the *2010-11 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has 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 connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following items:

- Whether the District's salaries of classroom instructors equal or exceed 50 percent of the District's current expense of education in accordance with Education Code Section 84362.
- Whether the District complied with all requirements necessary to claim FTES for instruction under 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.



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

- Whether the District acted to ensure that the residency of each student is properly classified and that only the attendance of California residents, specifically student-athletes, 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 the District complied with all requirements necessary to claim FTES for the attendance of concurrently enrolled K-12 pupils.
- Whether the Gann Limit Calculation was properly calculated and supported by adequate documentation.
- Whether the District reported the full amount of fees charged, regardless of whether the fees are collected, for the purpose of determining the District's share of annual apportionment.
- Whether the District expended CalWORKS and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKS students.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.
- Whether the District adopted policies or regulations regarding the authority of the District to require students to provide various types of instructional materials and whether the District has advised students of the exemptions from payment of health fees and established a process to ensure that students may claim the exemptions.
- Whether the District expended Economic and Workforce Development (EWD) funds to develop and deliver services to meet the needs identified in regional economic development plans and that state laws and regulations regarding subcontracts or grant amendments and operation of an EWD program center or an industry driven regional collaborative were complied with.
- Whether the District expended Extended Opportunity Programs and Services (EOPS) funds to provide services specifically designed to supplement existing support programs and to help EOPS eligible students complete their educational goal.
- Whether the District expended Disabled Student Programs and Services (DSPS) funds on students with exceptional needs because of a verified disability to facilitate measureable progress towards their educational goals.

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

- Whether the District expended Cooperative Agencies Resources for Education (CARE) funds to provide educational support services and activities for the academically under-prepared, welfare-dependent, single head-of-household student population.
- Whether the District provided eligible persons under the federal Jobs for Veterans Act preference (priority of service) and information regarding benefits and services obtainable through entities and service providers and to ensure eligible persons are informed of their employment-related rights and benefits.
- Whether the District lists To Be Arranged Hours (TBA) in the schedule of classes and describes them in the course outline and that student participation is carefully tracked to ensure apportionment is not claimed for TBA hours for students with documented zero hours as of the census point for a particular course.

In our opinion, we found that, for the items tested, the Palomar Community College District complied with the laws and regulations of the state programs referred to above, except as described in the Schedule of Findings and Questioned Costs Related to the Financial Statements section of this report as Finding 11-1. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Palomar Community College District had not complied with the laws and regulations of state programs and requirements, except as noted in the Schedule of Findings and Questioned Costs Related to the Financial Statements section of this report.

The Palomar Community College District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs Related to the Financial Statements. We did not audit the District's response and, accordingly, we express no opinion on it.

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

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

December 9, 2011

## **FINDINGS AND QUESTIONED COSTS**

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR RESULTS

June 30, 2011

*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, 84.063, 84.033, 84.268 and 84.375	Student Financial Assistance Cluster

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

Auditee qualified as low-risk auditee?   X   Yes        No

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**FINDING 11-1 – To Be Arranged Hours (TBA)**

**Finding:** As indicated in the Chancellor's office Memorandum dated June 10, 2009; "In terms of monitoring, colleges need to track student participation carefully and make sure that they do not claim apportionment for TBA hours for students who have documented zero hours as of the census point for the particular course". Based on our testing performed, it was noted that eighteen students of the eighty-seven tested did not have more than zero hours documented as of the census date.

**Questioned Costs:** Based on testing performed, FTES are overstated by 1.53.

**Recommendation:** The District should coordinate with appropriate personnel to verify students with zero hours as of the census date are not counted for apportionment purposes. All attendance rosters for TBA courses that are non-positive attendance need to be obtained to support apportionment. This information should be readily available for Instructional and Enrollment Services to review and verify all students with zero hours as of the census date are removed from the attendance report and not claimed for FTE purposes.

**District Response:** The District will implement online census rosters for faculty to verify that students are actively participating by the census date. Inactive students will be dropped by the census date so there will be no claim of apportionment. Faculty who are teaching TBA classes will be requested to maintain attendance records for additional support documentation.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FEDERAL AWARDS**  
**June 30, 2011**

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2011.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2011**

There were no prior year findings and questioned costs for the fiscal year ended June 30, 2010.