

PALOMAR COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

JUNE 30, 2012



PALOMAR COMMUNITY COLLEGE DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Statement of Net Assets	17
Statement of Revenues, Expenses and Changes in Net Assets.....	18
Statement of Cash Flows.....	19
Statement of Fiduciary Net Assets.....	21
Statement of Changes in Fiduciary Net Assets.....	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Post-Employment Healthcare Benefit Funding Progress.....	46
Notes to Required Supplementary Information.....	47

SUPPLEMENTARY INFORMATION

History and Organization	48
Schedule of Expenditures of Federal Awards.....	49
Schedule of State Financial Assistance	50
Schedule of Workload Measure for State General Apportionment Annual (Actual) Attendance.....	51
Reconciliation of Annual Financial and Budget Report with Audited Fund Balances	52
Schedule of General Fund Financial Trends and Analysis.....	53
Notes to Supplementary Information.....	54

PALOMAR COMMUNITY COLLEGE DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2012

OTHER INDEPENDENT AUDITORS' REPORTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	57
Independent Auditors' Report on State Compliance	59

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	61
Schedule of Findings and Questioned Costs Related to the Financial Statements.....	62
Schedule of Findings and Questioned Costs Related to Federal Awards	63
Schedule of Findings and Questioned Costs Related to State Awards.....	64
Status of Prior Year Findings and Questioned Costs	65

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Palomar Community College District, as of and for the year ended June 30, 2012 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Palomar Community College District as of June 30, 2012, 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 15, 2012 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 on 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 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.

Accounting principles generally accepted in the United State of America require that the required supplementary information, such as management's discussion and analysis on pages 3 through 16, and the schedule of funding progress on page 46 be presented to supplement the basic financial statements. Such information, although not 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 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 opinions on the financial statements that collectively comprise Palomar Community College District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 basic 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 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 basic financial statements as a whole.

Christy White Associates

San Diego, California
December 15, 2012

**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012. 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 of 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 71 approved Education Centers. Palomar College currently operates a campus in the City of San Marcos, an approved Education Center in the City of Escondido, and five outreach sites throughout north San Diego County in the following communities: Fallbrook, Ramona, Pauma Valley, Mt. Carmel, 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 late in 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 27,000 full-time and part-time students each fall and spring semester, while about 9,000 students attend during summer semester. Approximately 33% of our students are enrolled full-time, while about 60% are enrolled part-time in credit classes, and 7% are enrolled in non-credit classes. About 62% of our students are aged 24 or younger, while 38% are 25 or older.

**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

THE COLLEGE (continued)

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.

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:

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

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

- Capital Assets Schedule
- Long Term Debt Schedule

The State of California's economic, budgetary, and fiscal crisis continued during fiscal year (FY) 2011-12 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 decrease in apportionment revenue occurs at a time when the District and other community colleges 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 apportionment payments to the colleges.

**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

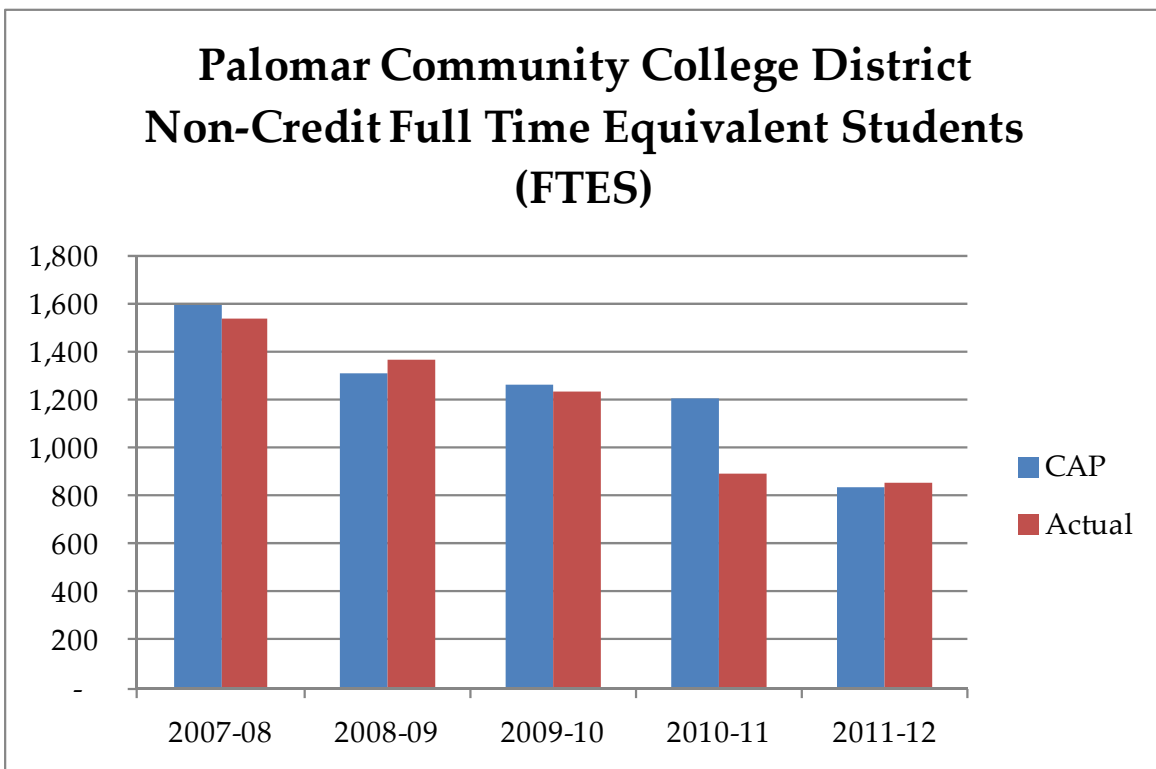
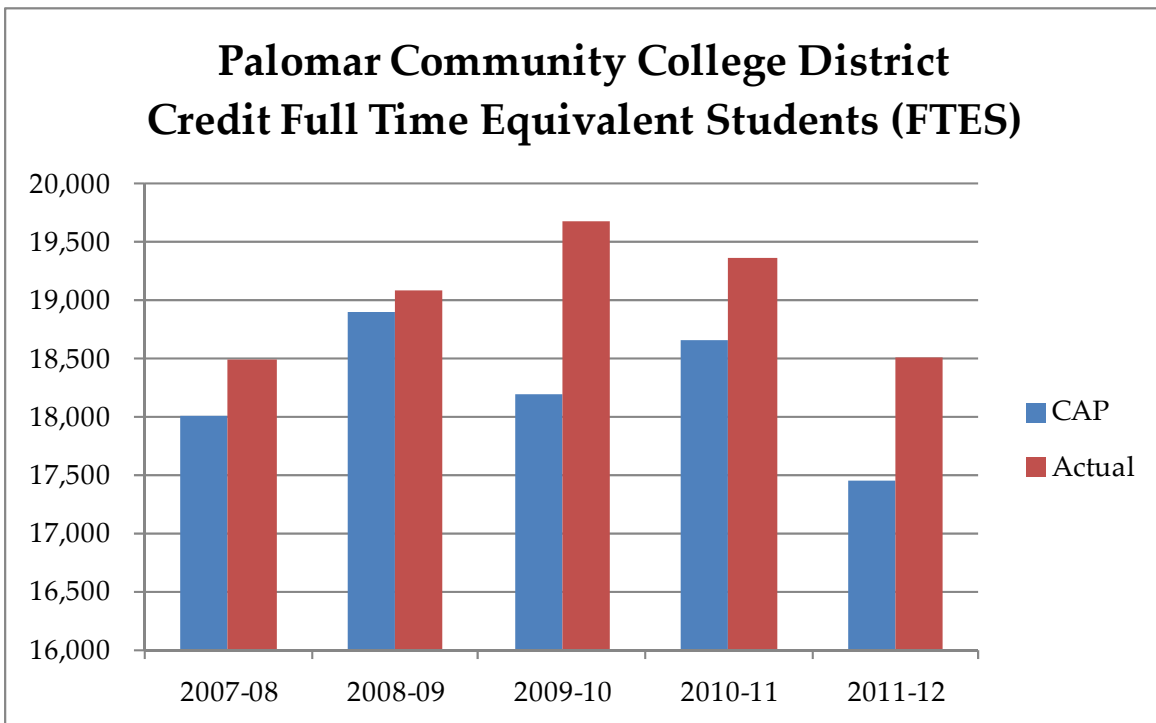
FINANCIAL AND ENROLLMENT HIGHLIGHTS (continued)

At the state level, the budget situation continues to reflect challenging economic times. A major key to increased funding for education is the recovery of the economy. There were two tax initiatives on the November 2012 ballot – the Governor's Proposition 30 and a rival tax initiative, Proposition 38. Since the Governor's proposal was approved by voters in November 2012, Community College funding for 2012-13 will remain flat at roughly the 2011-12 level.

Enrollment can fluctuate due to factors such as population growth, competition from private institutions, economic conditions and housing values. Losses in enrollment will cause a district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

For FY 2011-12 the Districts' total actual FTES decreased approximately 4.35% for credit and decreased 4.54% for non-credit courses which resulted in an overall decrease of 4.36%. 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 2013), which is when all the final FTES have 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, continued
FOR THE YEAR ENDED JUNE 30, 2012**



**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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 operation 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 is 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, continued
FOR THE YEAR ENDED JUNE 30, 2012**

STATEMENT OF NET ASSETS (continued)

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

	Governmental Activities		
	2012	2011	Net Change
ASSETS			
Current assets	\$ 233,817,063	\$ 269,005,159	\$ (35,188,096)
Non-current assets	253,612,474	233,214,619	20,397,855
Total Assets	487,429,537	502,219,778	(14,790,241)
LIABILITIES			
Current liabilities	23,123,628	22,946,007	177,621
Non-current liabilities	336,543,473	334,437,690	2,105,783
Total Liabilities	359,667,101	357,383,697	2,283,404
NET ASSETS			
Invested in capital assets, net of related debt	93,032,222	89,363,447	3,668,775
Restricted	22,725,505	30,004,761	(7,279,256)
Unrestricted	12,004,709	25,467,873	(13,463,164)
Total Net Assets	\$ 127,762,436	\$ 144,836,081	\$ (17,073,645)

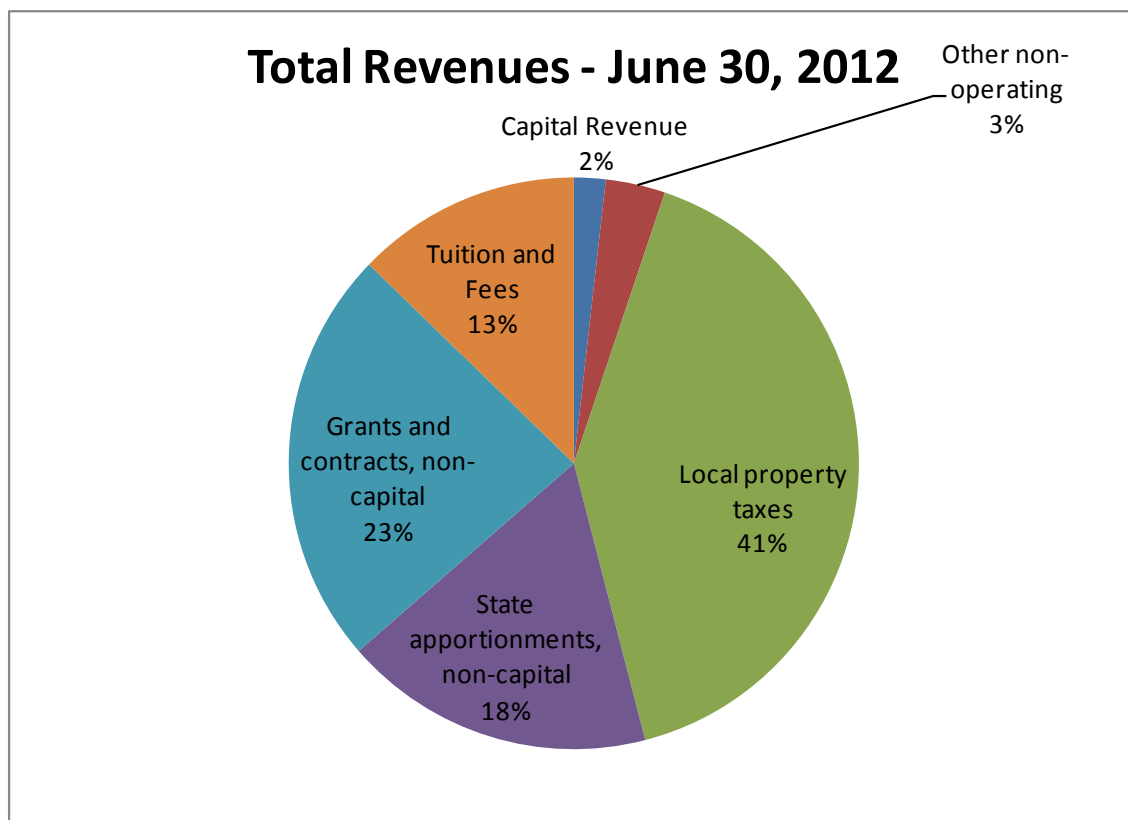
The District's total assets decreased \$14.8 million or 2.9% from the previous year. The majority of the decrease was related to a spend down of the cash and cash equivalents balance due to State deferrals and construction activities of the Proposition M bond building program utilizing the cash proceeds built up from prior year debt issuances. This activity was offset by the addition of non-current assets such as land and buildings and improvements from the Proposition M bond building program.

**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

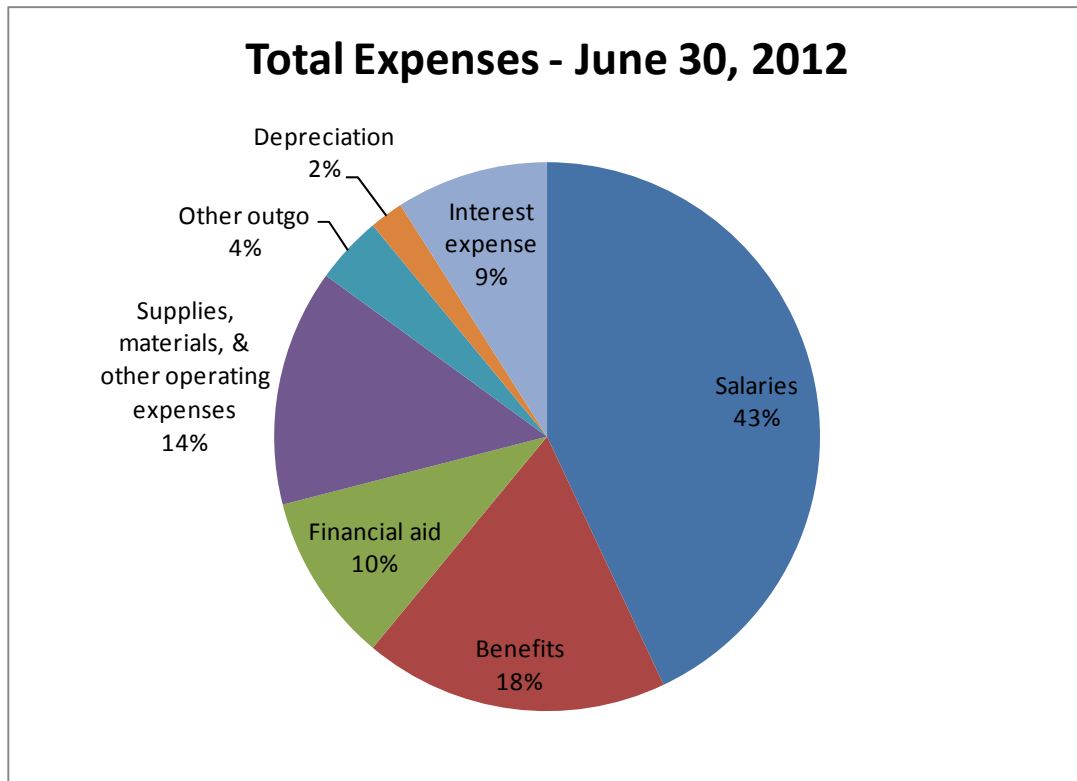
Changes in total net assets as presented on the *Statement of Net Assets* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Assets*. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, by the 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. On this page and the following page are charts that show the distribution by major category of total revenues and expenses.



**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (continued)



**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (continued)

A Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30 for each year is summarized below:

	Governmental Activities		
	2012	2011	Net Change
Revenues			
Tuition and fees (net)	\$ 13,433,039	\$ 12,856,149	\$ 576,890
Grants and contracts, noncapital	34,155,092	30,790,011	3,365,081
General revenues - property taxes	67,933,372	64,605,028	3,328,344
General revenues - unrestricted federal and state aid	28,486,549	39,699,105	(11,212,556)
General revenues - other	10,105,717	18,248,409	(8,142,692)
Total Revenue	154,113,769	166,198,702	(12,084,933)
Expenses			
Operating expenses	153,930,504	146,942,307	6,988,197
Interest	17,256,910	8,938,212	8,318,698
Total Expenses	171,187,414	155,880,519	15,306,895
Change in net assets	\$ (17,073,645)	\$ 10,318,183	\$ (27,391,828)

- 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.
- Grants and contracts, noncapital are primarily funds received from Federal, State, and local sources and used in the instructional program. The increase was due to increases in federal grant funding.
- 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. Most of this increase was attributable to increased funds received from the dissolution of redevelopment agencies.
- General revenues - unrestricted federal and state aid represents the amount received from the State based on FTES. This decreased primarily due to declines in State apportionment.
- General revenues – other decreased because the State funded building was completed.
- Total operating expenses increased 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 81.4% of the total operating expenses excluding depreciation and financial aid for all funds. The balance of the operating expenses is for supplies, other services, capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense. Financial Aid increased significantly as more students were seeking tuition assistance.
- Interest expense increased primarily due to interest accreted on long-term debt.

**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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 obligation 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, 2012 and 2011 is summarized and presented below:

	2012	2011
Operating activities	\$ (97,676,312)	\$ (98,562,042)
Noncapital financing activities	99,885,034	93,285,211
Capital and related financing activities	(53,773,471)	168,926,080
Investing activities	1,238,805	323,692
Net Change in Cash and Cash Equivalents	(50,325,944)	163,972,941
Cash and Cash Equivalents - Beginning of Year	267,493,199	103,520,258
Cash and Cash Equivalents - End of Year	\$ 217,167,255	\$ 267,493,199

**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

STATEMENT OF CASH FLOWS (continued)

- 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. Additional tuition due to the increase in class fees, and additional grant monies received contributed to the decline in the amount of cash used.
- Additional property taxes received as a result of the dissolution of redevelopment agencies 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 large decrease was due to the fact that bonds were issued in fiscal year 2010-11.
- 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, continued
FOR THE YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

- As of June 30, 2012, the District had \$251.2 million in net capital assets. Total capital assets consist of land, buildings, and building improvements, construction in progress, vehicles, data processing equipment, and other equipment. Accumulated depreciation related to these assets is \$45.7 million. Depreciation expense of \$4.2 million was recorded for the fiscal year.
- The increase in buildings and building improvements, along with the corresponding decrease in Construction in Progress, was primarily related to the construction activities at the San Marcos campus. This included construction of the Industrial Technology Building, Planetarium, Humanities Building, Theater Expansion and Renovation and the T Building Renovation.

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

	Governmental Activities		
	2012	2011	Net Change
Land and construction in progress	\$ 127,707,178	\$ 109,476,277	\$ 18,230,901
Buildings and equipment	169,205,578	148,762,843	20,442,735
Accumulated depreciation	(45,691,263)	(42,226,096)	(3,465,167)
Total Capital Assets	\$ 251,221,493	\$ 216,013,024	\$ 35,208,469

**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Debt

At June 30, 2012, the District had \$339.8 million in debt, \$5.8 million of this total is related to Lease Revenue Bonds and \$331.8 million is related to the three General Obligation Bonds issued in May 2007 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 \$2.1 million is related to Other Post-Employment Benefits (OPEB).

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 11 to the financial statements for additional information.

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

	Governmental Activities		
	2012	2011	Net Change
General obligation bonds	\$ 331,835,915	\$ 330,336,762	\$ 1,499,153
Lease revenue bonds	5,820,000	6,275,000	(455,000)
Other long-term liabilities	2,107,558	2,235,928	(128,370)
Total Long-term Liabilities	\$ 339,763,473	\$ 338,847,690	\$ 915,783

**PALOMAR COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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 K-14, UC and CSU entities. Passage of Proposition 30 in November 2012 means the avoidance of a 7.3% workload reduction for California Community Colleges, reduces community college deferrals by \$159 million in 2012-13, and provides an additional \$50 million in growth funding for 2012-13. It also created an "Educational Protection Account" (EPA) that collects the funds generated by the temporary increased sales and personal income taxes over the next several years. The initial distribution of these funds will be made in June 2013 and cannot be used for administrative compensation or costs. While not defined at this point, fiscal standards are being developed and will be provided to districts in order to comply with this requirement.

The State built its budget relying on a significant amount of monies from the dissolution of local Redevelopment Agencies (RDA) in which the State has promised to hold community colleges harmless. However, if RDA, property taxes and student fees do not materialize as the State budgeted, there could be a trickledown effect known as a deficit coefficient that Palomar Community College District has not budgeted for and would require use of any reserves to make up for the shortfall.

There is still no projected cost of living increase from the State which means that all community colleges have to absorb rising utility rates, electricity costs, health care costs and increases in the PERS rates. With the new buildings coming into use, the District must plan how to absorb the subsequent increase in utility and maintenance costs.

Because the State categorical funding cuts are expected to continue through FY 2013-14, the general fund will have to maintain its funding of the categorical areas in FY 2013-14 and potentially in subsequent fiscal years.

Other than the items 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 the 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 to ensure the fiscal stability of the District.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 217,167,255
Investments	588,004
Accounts receivable	15,909,415
Prepaid expenses	152,389
Total Current Assets	233,817,063

NONCURRENT ASSETS

Capitalized fees	2,390,981
Capital assets, net of accumulated depreciation	251,221,493
Total Noncurrent Assets	253,612,474
TOTAL ASSETS	487,429,537

LIABILITIES

CURRENT LIABILITIES

Accounts payable	12,173,841
Deferred revenue	1,757,440
Accrued interest payable	2,781,823
Compensated absences	3,190,524
Current Portion - Long-term debt	3,220,000
Total Current Liabilities	23,123,628

NONCURRENT LIABILITIES

Noncurrent portion - Long-term debt	336,543,473
TOTAL LIABILITIES	359,667,101

NET ASSETS

Invested in capital assets, net of related debt	93,032,222
Restricted for:	
Debt service	8,510,910
Capital projects	13,503,127
Other special services	711,468
Unrestricted	12,004,709
TOTAL NET ASSETS	\$ 127,762,436

See accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

OPERATING REVENUES	
Student Tuition and Fees	\$ 20,588,232
Less: Scholarship discount & allowance	(7,155,193)
Net tuition & fees	<u>13,433,039</u>
Grants and Contracts, noncapital:	
Federal	22,982,811
State	8,390,682
Local	<u>2,781,599</u>
Subtotal	<u>34,155,092</u>
TOTAL OPERATING REVENUES	<u>47,588,131</u>
OPERATING EXPENSES	
Salaries	75,081,526
Benefits	32,502,501
Financial aid	17,652,775
Supplies, materials, & other operating expenses	24,517,486
Depreciation	<u>4,176,216</u>
TOTAL OPERATING EXPENSES	<u>153,930,504</u>
OPERATING LOSS	<u>(106,342,373)</u>
NONOPERATING REVENUES/(EXPENSES)	
State apportionments, non-capital	28,486,549
Local property taxes	65,770,446
State taxes & other revenues	4,143,395
Investment income - Non-capital	1,372,260
Other local revenues	3,854,885
Interest expense	<u>(17,256,910)</u>
TOTAL NONOPERATING REVENUES	<u>86,370,625</u>
LOSS BEFORE OTHER REVENUES AND GAINS	<u>(19,971,748)</u>
OTHER REVENUES AND GAINS/(LOSSES)	
State apportionments, capital	759,170
Local property taxes and revenues, capital	2,162,926
Loss on disposal of equipment	<u>(23,993)</u>
TOTAL OTHER REVENUES AND GAINS	<u>2,898,103</u>
CHANGE IN NET ASSETS	<u>(17,073,645)</u>
NET ASSETS, BEGINNING OF YEAR	<u>144,836,081</u>
NET ASSETS, END OF YEAR	<u>\$ 127,762,436</u>

See accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 20,661,842
Grants and contracts	35,310,016
Payments to or on behalf of employees	(110,562,654)
Payments to vendors for supplies and services	(26,586,172)
Payments to students for scholarships and grants	(16,499,344)
Net Cash Used by Operating Activities	<u>(97,676,312)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments	27,188,979
Property taxes	65,797,303
Grants and gifts noncapital	6,898,752
Net Cash Provided by Non-capital Financing Activities	<u>99,885,034</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Acquisition and construction of capital assets	(39,408,677)
State apportionments, capital projects	3,098,584
Principal paid on capital debt	(4,410,000)
Interest paid on capital debt	(15,216,304)
Interest received on capital debt	2,162,926
Net Cash Used by Capital Financing Activities	<u>(53,773,471)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	<u>1,238,805</u>
Net Cash Provided/(Used) by Investing Activities	<u>1,238,805</u>

NET DECREASE IN CASH & CASH EQUIVALENTS (50,325,944)

CASH & CASH EQUIVALENTS, BEGINNING OF YEAR 267,493,199

CASH & CASH EQUIVALENTS, END OF YEAR \$ 217,167,255

See accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS, continued
FOR THE YEAR ENDED JUNE 30, 2012

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES**

Operating loss	\$ (106,342,373)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation expense	4,176,216
Changes in Assets and Liabilities:	
Receivables, net	(74,389)
Prepaid items	35,541
Accounts payable and accrued liabilities	5,143,063
Deferred revenue	19,929
Compensated absences	(634,299)
Total Adjustments	<u>8,666,061</u>
Net Cash Flows From Operating Activities	<u><u>\$ (97,676,312)</u></u>

See accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

	Fiduciary Funds Agency
ASSETS	
Cash in county treasury	\$ 1,505,317
Cash on hand and in banks	115,541
Accounts receivable	22,560
Total Assets	1,643,418
LIABILITIES	
Accounts payable	4,428
Deferred revenue	53,249
Amounts held in trust for others	41,298
Total Liabilities	98,975
NET ASSETS	
Restricted Net Assets	1,544,443
Total Net Assets	\$ 1,544,443

See accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Fiduciary Funds Agency
Additions	
Student fees	\$ 281,527
Interest and investment income	7,738
Contributions and other local revenues	557,665
Total Additions	<u>846,930</u>
Deductions	
Salaries	455
Supplies and materials	22,548
Other operating expenses and services	70,292
Capital outlay	322,414
Student financial aid	704,472
Total Deductions	<u>1,120,181</u>
CHANGE IN NET ASSETS	<u>(273,251)</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,817,694</u>
NET ASSETS, END OF YEAR	<u>\$ 1,544,443</u>

See accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.
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.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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).

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

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.

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, 2012, 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.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

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 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

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.

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, 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.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

9. Net Assets (continued)

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 2013 will be recorded in the year computed by the State.

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 \$1,669,630 for STRS.

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 nonoperating 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 nongovernmental 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.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

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

This 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 policy for custodial credit risk for deposits. However, the California Government Code does require that a financial institution secure deposits made by state or local government units by pledging Securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District's bank balance of \$2,401,382 was not exposed to custodial credit risk.

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, 2012, as provided by the pool sponsor, was \$215,388,694 and the book value was \$214,765,873. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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, 2012.

Cash and Investments at June 30, 2012 consisted of:

Governmental Funds:

Cash on hand and in banks	\$ 2,401,382
Cash in San Diego County Investment Pool	214,765,873
Investments	588,004
Total Cash and Investments	<u>\$ 217,755,259</u>

Fiduciary Funds:

Cash in San Diego County Investment Pool	\$ 1,505,317
Cash on hand	115,541
Total Cash	<u>\$ 1,620,858</u>

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.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

B. Investments (continued)

Credit Risk

Credit risk is the risk that an 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. All of the District's investments of \$588,004 are in the Bayerische Landesbank as of June 30, 2012.

NOTE 3 – ACCOUNTS RECEIVABLE

The accounts receivable balance as of June 30, 2012 consists of the following:

Federal	\$	379,156
State		12,712,236
Local		2,818,023
Total	\$	<u>15,909,415</u>

NOTE 4 – INTER-FUND TRANSACTIONS

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

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 5 – CAPITAL ASSETS

The following provides a summary of changes in capital assets for the year ended June 30, 2012:

	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012
Capital Assets not being Depreciated				
Land	\$ 59,765,578	\$ 3,248,509	\$ -	\$ 63,014,087
Construction in progress	49,710,699	39,129,360	24,146,968	64,693,091
Total Capital Assets not being Depreciated	109,476,277	42,377,869	24,146,968	127,707,178
Capital Assets being Depreciated				
Land improvements	14,851,995	-	-	14,851,995
Buildings & improvements	117,720,886	18,581,353	-	136,302,239
Furniture & equipment	16,189,962	2,596,424	735,042	18,051,344
Total Capital Assets being Depreciated	148,762,843	21,177,777	735,042	169,205,578
Total Capital Assets	258,239,120	63,555,646	24,882,010	296,912,756
Less Accumulated Depreciation				
Land improvements	11,260,756	115,776	-	11,376,532
Buildings & improvements	17,760,771	2,635,677	-	20,396,448
Furniture & equipment	13,204,569	1,424,763	711,049	13,918,283
Total Accumulated Depreciation	42,226,096	4,176,216	711,049	45,691,263
Net Capital Assets	\$ 216,013,024	\$ 59,379,430	\$ 24,170,961	\$ 251,221,493

Depreciation expense for the year was \$4,176,216.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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:

Year Ended	
June 30,	Payment
2013	\$ 155,619
2014	127,682
2015	127,604
2016	128,316
Total	<u>\$ 539,221</u>

Current year expenditures for operating leases is approximately \$347,471. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

NOTE 7 - 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 payoff the debt will come from the Student Center Fee Fund. Future principal and interest payments are as follows:

Year Ended				
June 30,	Principal	Interest	Total	
2012-2013	\$ 80,000	\$ 125,365	\$ 205,365	
2013-2014	80,000	121,805	201,805	
2014-2015	85,000	118,125	203,125	
2015-2016	90,000	113,874	203,874	
2016-2017	95,000	109,600	204,600	
2017-2021	550,000	471,750	1,021,750	
2022-2026	720,000	306,219	1,026,219	
2027-2031	720,000	94,812	814,812	
Total	<u>\$ 2,420,000</u>	<u>\$ 1,461,550</u>	<u>\$ 3,881,550</u>	

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 7 - 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 used to refund the Certificates of Participation (COPs). The principal amount paid was \$4,320,000 with the remaining proceeds deposited in an escrow account for future repayments. The refunding is considered an in-substance defeasance and therefore, amounts held in escrow are not reported as District assets. 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:

Year Ended				
June 30,	Principal	Interest	Total	
2012-2013	\$ 395,000	\$ 100,425	\$ 495,425	
2013-2014	410,000	88,350	498,350	
2014-2015	420,000	75,900	495,900	
2015-2016	435,000	60,900	495,900	
2016-2017	450,000	45,450	495,450	
2017-2021	1,290,000	54,900	1,344,900	
Total	\$ 3,400,000	\$ 425,925	\$ 3,825,925	

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 8 - 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.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 8 - GENERAL OBLIGATION BONDS (continued)

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.

The outstanding bonded debt for Palomar Community College District at June 30, 2012 is:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding, July 1, 2011*	Accreted Interest Addition	Redeemed	Bonds Outstanding, June 30, 2012
5/2/2007	2032	4.25% - 5.0%	\$ 160,000,000	\$ 147,530,000	\$ -	\$ 2,455,000	\$ 145,075,000
10/28/2010	2046	2.36% - 6.72%	91,498,901	92,713,480	5,740,885	1,500,000	96,954,365
10/28/2010	2046	7.19%	83,500,000	83,500,000	-	-	83,500,000
			<u>\$ 334,998,901</u>	<u>\$ 323,743,480</u>	<u>\$ 5,740,885</u>	<u>\$ 3,955,000</u>	<u>\$ 325,529,365</u>

*Includes \$1,214,579 in accreted interest.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 8 - GENERAL OBLIGATION BONDS (continued)

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. The annual requirements to amortize all Proposition M bonds payable, outstanding as of June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Accreted Interest	Interest Subsidy	Total
2012-2013	\$ 2,745,000	\$ 12,936,565	\$ -	\$ (2,102,446)	\$ 13,579,119
2013-2014	3,060,000	12,813,040	-	(2,102,446)	13,770,594
2014-2015	3,395,000	12,675,340	-	(2,102,446)	13,967,894
2015-2016	4,015,651	12,505,590	29,350	(2,102,446)	14,448,145
2016-2017	4,527,396	12,317,340	62,604	(2,102,446)	14,804,894
2017-2021	32,948,818	58,029,200	3,056,182	(10,512,230)	83,521,970
2022-2026	49,536,644	59,143,777	11,158,357	(10,512,230)	109,326,548
2027-2031	62,929,969	76,479,242	7,840,031	(10,512,230)	136,737,012
2032-2036	20,990,367	83,542,400	52,039,633	(10,512,230)	146,060,170
2037-2041	39,287,696	59,165,077	67,827,305	(10,512,230)	155,767,848
2042-2046	95,137,360	19,113,678	28,477,637	(5,558,270)	137,170,405
Accreted Interest	6,955,464	-	(6,955,464)	-	-
	\$ 325,529,365	\$ 418,721,249	\$ 163,535,635	\$ (68,631,650)	\$ 839,154,599

NOTE 9 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2012 is shown below:

	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Long-Term Obligations					
General obligation bonds	\$ 322,528,901	\$ -	\$ 3,955,000	\$ 318,573,901	\$ 2,745,000
Accreted Interest	1,214,579	5,740,885	-	6,955,464	-
Premium on bonds	6,593,282	-	286,732	6,306,550	-
Lease revenue bonds	6,275,000	-	455,000	5,820,000	475,000
Other postemployment benefits	2,235,928	-	128,370	2,107,558	-
Totals	\$ 338,847,690	\$ 5,740,885	\$ 4,825,102	\$ 339,763,473	\$ 3,220,000

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 10 - EMPLOYEE RETIREMENT PLANS

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

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

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

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 10 - EMPLOYEE RETIREMENT PLANS (continued)

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The average required employer contribution for fiscal year 2011-12 was 11.417% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

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

Year Ended June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2010	\$ 3,392,467	100%	\$ 2,586,709	100%
2011	\$ 3,419,568	100%	\$ 2,856,834	100%
2012	\$ 3,228,133	100%	\$ 2,921,158	100%

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 11 - 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 receiving benefits	386
Active plan members	<u>708</u>
Total	<u>1,094</u>

Funding Policy

The District currently finances benefits on a pay-as-you-go basis. The District contributes 100 percent of the cost of current year premiums for eligible retirees, spouses/registered domestic partners and eligible dependents as applicable. For fiscal year ended 2012, the District contribute \$5,661,587 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, 2012, the Post Retirement Benefits Fund's ending fund balance was \$12,551,452. On November 8, 2011, as part of the District's funding plan, the Governing Board authorized a transfer of approximately \$1.8 million for 2011-12 and 2012-13 to an irrevocable trust fund with the Community College League of California.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 11 - POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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	\$ 5,520,457
Interest on net OPEB contribution	111,796
Adjustment to annual ARC	(99,036)
Annual OPEB cost (expense)	5,533,217
Contributions made	(5,661,587)
Increase in net OPEB obligation	(128,370)
Net OPEB obligation, Beginning of Year	2,235,928
Net OPEB obligation, End of Year	\$ 2,107,558

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

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
6/30/2010	\$ 5,363,291	79.3%	\$ 1,868,695
6/30/2011	\$ 5,368,579	93.2%	\$ 2,235,928
6/30/2012	\$ 5,533,217	102.3%	\$ 2,107,558

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 11 - POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

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 \$54,921,631, and the ratio of the UAAL to the covered payroll was 142.9%.

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.

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 \$12,551,452, 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, 2012, was twenty-six years.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 12 - 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 (CCLC). 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 (SDCSFBC) provides employee fringe benefits to various school districts and community college districts throughout San Diego County. The San Diego County Schools Fringe Benefits Consortium's governing board is made up of one representative from each member district.

The Statewide Association of Community Colleges (SWACC) 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 can be obtained by contacting the District business administration.

PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 13- 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 was to be paid from a tax sharing agreement with the CDC. With the dissolution of the CDC following the passage of ABX1 26, the Successor Agency for the Escondido RDA handles the servicing for all remaining debt for the CDC. As of June 30, 2102, the amount credited to the District to offset the debt is \$608,781.

C. Purchase Commitments

As of June 30, 2012, the District was committed under various capital expenditure purchase agreements for construction and modernization projects. 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 deposition of these matters will not have a material adverse effect on the District's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF POST-EMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
8/1/2010	\$ -	\$ 78,499,867	\$ 78,499,867	0%	\$ 53,321,972	147.2%
11/1/2007	\$ -	\$ 68,399,865	\$ 68,399,865	0%	\$ 54,521,872	125.5%

Note: Fiscal year 2009 was the implementation year of GASB Statement No. 45 and the District elected to implement prospectively, therefore, 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 \$12,551,452 for future retiree health care costs in the Post-Retirement Benefits Fund.

On November 8, 2012, 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012

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 five outreach sites located in Mt. Carmel, Camp Pendleton, Fallbrook, Ramona, and Pauma Valley.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Darrell L. McMullen, M.B.A.	President	2012
Rose Marie Dishman, Ph.D.	Vice President	2012
Nancy C. Chadwick, M.S.W., M.P.A.	Secretary	2012
Paul P. McNamara, B.A.	Trustee	2014
Mark R. Evilsizer, M.A.	Trustee	2014

DISTRICT ADMINISTRATORS

Robert P. Deegan
Superintendent/President

Ronald E. Ballesteros-Perez
Assistant Superintendent/Vice President, Finance and Administrative Services

Berta Cuaron
Assistant Superintendent/Vice President, Instruction

Mark Vernoy, Ph.D.
Assistant Superintendent/Vice President Student Services

John Tortarolo
Assistant Superintendent/Vice President, Human Resource Services

**PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER*</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Education			
Direct			
Student Financial Assistance Cluster			
SEOG	84.007	N/A	\$ 307,329
Administrative Allowance	84.063	N/A	13,827
Pell Grant	84.063	N/A	14,257,873
Federal Work Study	84.033	N/A	207,329
Direct Loans	84.268	N/A	2,438,183
Total Student Financial Assistance Cluster			<u>17,224,541</u>
TRIO Cluster			
Educational Opportunity Centers	84.066	N/A	259,704
Student Support Services	84.042	N/A	325,622
Upward Bound	84.047	N/A	245,389
Talent Search	84.044	N/A	110,728
Total TRIO Cluster			<u>941,443</u>
Higher Education Act			
Veterans Education	84.12	N/A	7,368
Gear-Up	84.334A	N/A	2,254,883
Strengthening Institutions-Hispanic Serving Institutions-Title V	84.031S	N/A	1,507,585
Strengthening Institutions-Hispanic Serving Institutions-Title III	84.031C	N/A	93,997
Total direct form U.S. Department of Education			<u>3,863,833</u>
Pass Through the California Community College Chancellor's Office (CCCCO)			
Career and Technical Education (CTE)			
Perkins-Title II, Part C	84.048	13920	594,992
Perkins-Transitions	84.048	N/A	40,866
Total passed through from the CCCCCO			<u>635,858</u>
Total U.S. Department of Education			<u>22,665,675</u>
U.S. Department of Health and Human Services			
Pass Through the California Department of Education (CDE)			
Temporary Assistance for Needy Families	93.558	N/A	51,640
Child Development Training Consortium	93.575	13967	25,475
Total U.S. Department of Health and Human Services			<u>77,115</u>
U.S. Department of Agriculture			
Pass Through the California Department of Education (CDE)			
Child Nutrition	10.555	3755	48,864
Total U.S. Department of Agriculture			<u>48,864</u>
National Science Foundation			
Direct			
Advancing Geospatial Technology Pathways at Palomar College	47.076	N/A	120,032
Science, Technology, Engineering and Math Talent Expansion Program	47.076	N/A	18,474
Total National Science Foundation			<u>138,506</u>
Total Federal Programs			<u>\$ 22,930,160</u>
Reconciliation to Federal Revenues			
Total Federal Expenditures			\$ 22,930,160
Revenues in excess of expenditures			
Administrative Allowance/Veterans Education/Child Development Training Consortium			52,651
Total Federal Grants			<u>\$ 22,982,811</u>

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

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Cash Received	Accounts Receivable	Deferred Income	Accounts Payable	Total	Program Expenditures
Apprentice Allowance	\$ 645,236	\$ -	\$ -	\$ -	\$ 645,236	\$ 645,236
Associate Nursing Degree Grant	177,267	83,420	-	-	260,687	260,687
Basic Skills	136,008	-	136,008	-	-	-
Board Financial Assistant Program	586,389	-	-	-	586,389	586,389
CalWORKS	132,536	-	-	25,012	107,524	107,524
Cooperative Agencies Resources for Education	78,802	-	-	348	78,454	78,454
Disable Student Programs & Services	732,996	-	-	-	732,996	732,996
Extended Opportunity Programs & Services	798,367	-	-	-	798,367	798,367
Faculty and Staff Diversity	9,016	1,054	-	-	10,070	10,070
Matriculation	809,853	-	-	-	809,853	809,853
Part-Time Faculty	421,311	-	-	-	421,311	421,311
TTIP South	3,534,214	379,156	-	-	3,913,370	3,913,370
Total State Programs	\$ 8,061,995	\$ 463,630	\$ 136,008	\$ 25,360	\$ 8,364,257	\$ 8,364,257

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT ANNUAL
(ACTUAL) ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

CATEGORIES	Reported Data	Audit Adjustments*	Audited Data
Credit Full-Time Equivalent Student (FTES)			
1. Summer	1,160	-	1,160
2. Weekly census	12,102	-	12,102
3. Daily census	974	-	974
4. Actual hours of attendance	860	-	860
5. Alternative Attendance Weekly census	2,790	-	2,790
6. Alternative Attendance Daily census	625	-	625
Subtotal	18,511	-	18,511
Noncredit FTES			
1. Summer	112	-	112
2. Actual hours of attendance	745	-	745
Subtotal	857	-	857
Total FTES	19,368	-	19,368
Basic Skills Courses			
1. Credit			580
2. Noncredit			781
Total Basic Skills FTES			1,361

**No Audit Adjustments were booked during the fiscal year 2011-12*

**PALOMAR COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FUND
BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The audit resulted in no adjustments to the fund balances reported on the June 30, 2012 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.

PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF GENERAL FUND FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	(Budget) 2013		2012		2011		2010	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
General Fund:								
Revenue								
Federal	\$ 8,084,108	6.97	\$ 5,930,561	5.22	\$ 4,597,204	3.85	\$ 5,169,275	4.30
State	43,304,520	37.35	39,873,589	35.11	50,649,373	42.37	46,397,214	38.62
Local	64,538,940	55.67	67,776,920	59.67	64,286,975	53.78	68,573,189	57.08
Total revenue	<u>115,927,568</u>	<u>100.00</u>	<u>113,581,070</u>	<u>100.00</u>	<u>119,533,552</u>	<u>100.00</u>	<u>120,139,678</u>	<u>100.00</u>
Expenditures								
Academic salaries	45,044,770	36.88	44,975,707	38.19	47,255,030	40.44	46,574,801	39.88
Classified salaries	30,184,588	24.72	29,506,197	25.05	28,889,069	24.72	29,264,673	25.06
Employee benefits	28,454,388	23.30	26,566,406	22.56	25,238,189	21.60	23,920,261	20.48
Supplies and materials	2,104,015	1.72	2,118,405	1.80	1,959,574	1.68	1,913,221	1.64
Other operating expenses and services	12,192,781	9.98	12,079,214	10.26	11,191,711	9.58	12,021,347	10.29
Capital outlay	1,699,710	1.39	2,084,803	1.77	1,533,195	1.31	2,079,947	1.78
Other uses (net)	2,446,148	2.00	435,936	0.37	794,299	0.67	1,025,689	0.87
Total expenditures	<u>122,126,400</u>	<u>100.00</u>	<u>117,766,668</u>	<u>100.00</u>	<u>116,861,067</u>	<u>100.00</u>	<u>116,799,939</u>	<u>100.00</u>
Change in fund balance	\$ (6,198,832)	(5.26)	\$ (4,185,598)	(3.55)	\$ 2,672,485	2.29	\$ 3,339,739	2.86
Ending fund balance	<u>\$ 16,933,649</u>	<u>14.38</u>	<u>\$ 23,132,481</u>	<u>19.64</u>	<u>\$ 27,318,079</u>	<u>23.38</u>	<u>\$ 24,645,594</u>	<u>21.10</u>
Full-time equivalent students	<u>19,368</u>		<u>19,368</u>		<u>20,251</u>		<u>20,932</u>	
Total long-term debt	<u>\$ 336,543,473</u>		<u>\$ 339,763,473</u>		<u>\$ 338,847,690</u>		<u>\$ 163,967,007</u>	

Important Notes:

All revenue percentages are of total revenues, all other percentages are of total expenditures.

Budget figures include adopted budget as of 9/11/2012.

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012 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.

E. History and Organization

This schedule provides information about the District's boundaries and operation sites, members of the governing board, and member of the administration.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

**INDEPENDENT AUDITORS' 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
San Marcos, California

We have audited the financial statements of Palomar Community College District as of and for the year ended June 30, 2012 and have issued our report thereon dated December 15, 2012. 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

Management of Palomar Community College District is responsible for establishing and maintaining effective 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 Palomar Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Palomar Community College 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, others within the entity, the District's federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 15, 2012

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

The Board of Trustees
Palomar Community College District
San Marcos, California

Compliance

We have audited Palomar Community College District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Palomar Community College District's major federal programs for the year ended June 30, 2012. Palomar Community College District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Palomar Community College District's management. Our responsibility is to express an opinion on Palomar Community College District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Palomar Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Palomar Community College District's compliance with those requirements.

In our opinion, Palomar Community College District complied, in all material respects, with the compliance referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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.



San Diego, California
December 15, 2012

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

The Board of Trustees
Palomar Community College District
San Marcos, California

We have audited Palomar Community College District's compliance with the types of compliance requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2011-12*, issued by the California Community Colleges Chancellor's Office for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Palomar Community College District's management. Our responsibility is to express an opinion on Palomar Community College District's compliance based on our audit.

We conducted our audit 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 *California Community Colleges Contracted District Audit Manual (CDAM) 2011-12*, issued 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 types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Palomar Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Palomar Community College District's compliance with the state laws and regulations referred to above.

In connection with the audit referred to above, we selected and tested transactions and records to determine Palomar Community College District's compliance with the state laws and regulations applicable to the following items:

Section 421: Salaries of Classroom Instructors (50 Percent Law)

Section 423: Apportionment for Instructional Services Agreements/Contracts

Section 424: State General Apportionment Funding System

Section 425: Residency Determination for Credit Courses

Section 426: Students Actively Enrolled

Section 427: Concurrent Enrollment of K-12 Students in Community College Credit Courses

Section 431: Gann Limit Calculation

Section 433: CalWORKs

Section 435: Open Enrollment

Section 437: Student Fees – Instructional and Other Materials

Section 438: Student Fees – Health Fees and Use of Health Fee Funds

Section 474: Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)

Section 475: DSPS – Disabled Student Programs and Services (DSPS)

Section 476 - Curriculum and Instruction

Section 479: To Be Arranged Hours (TBA)

In our opinion Palomar Community College District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012.

This report is intended solely for the information and use of the Board of Trustees, others within the entity, District Management, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Education, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
December 15, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PALOMAR COMMUNITY COLLEGE DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
<u>84.007, 84.033, 84.063, 84.268</u>	<u>Student Financial Aid Cluster</u>
<u>84.334A</u>	<u>GEAR-UP</u>
<u>84.048</u>	<u>Perkins-Title II, Part C</u>
<u>84.031S</u>	<u>Title V Hispanic Serving Institution</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 689,484</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO THE FINANCIAL
STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no findings or questioned costs related to the financial statements during 2011-12.

**PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no findings or questioned costs related to federal awards during 2011-12.

**PALOMAR COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no findings or questioned costs related to state awards during 2011-12.

**PALOMAR COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-1: 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 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 Responses: 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.

Current Status: Fully Implemented.