

# PALOMAR COMMUNITY COLLEGE DISTRICT

## AUDIT REPORT

JUNE 30, 2013



San Diego

Los Angeles

San Francisco  
Bay Area

christywhite  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION  
*associates*

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
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**FOR THE YEAR ENDED JUNE 30, 2013**

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## FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

### Corporate Office:

2727 Camino Del Rio South  
Suite 219

San Diego, CA 92108

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California  
State Board of Accountancy*

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Palomar Community College District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Palomar Community College District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Palomar Community College District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 17 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by the *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2013 on our consideration of Palomar Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Palomar Community College District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Chisly White Associates".

San Diego, California  
December 1, 2013

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

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**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, 2013. 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 three outreach sites throughout north San Diego County in the following communities: Fallbrook, Pauma Valley, and Camp Pendleton. In addition, the District received California Postsecondary Education Commission (CPEC) and Board of Governors (BOG) approval for its North Education Center. 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 26,000 full-time and part-time students each fall and spring semester, while about 8,500 students attend during summer semester. Approximately 31% of the students are enrolled full-time, while about 62% are enrolled part-time in credit classes, and 7% are enrolled in non-credit classes. About 59% of our students are aged 24 or younger, while 41% are 25 or older.



**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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**THE COLLEGE (continued)**

Palomar College is currently offering over 200 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 Position
- The Statements of Revenue, Expenses, and Changes in Net Position
- 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 to have a major impact on Palomar College during fiscal year (FY) 2012-13. 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. The magnitude of the deficit coefficient for FY2012-13 will be affected by the amount of backfill in redevelopment funding that will be finalized by the State. This continuation of decreased apportionment revenue occurs at a time when the District and other community colleges are trying to regrow their programs that were cut during the downturn in the economy because of lack of funding. 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, 2013**

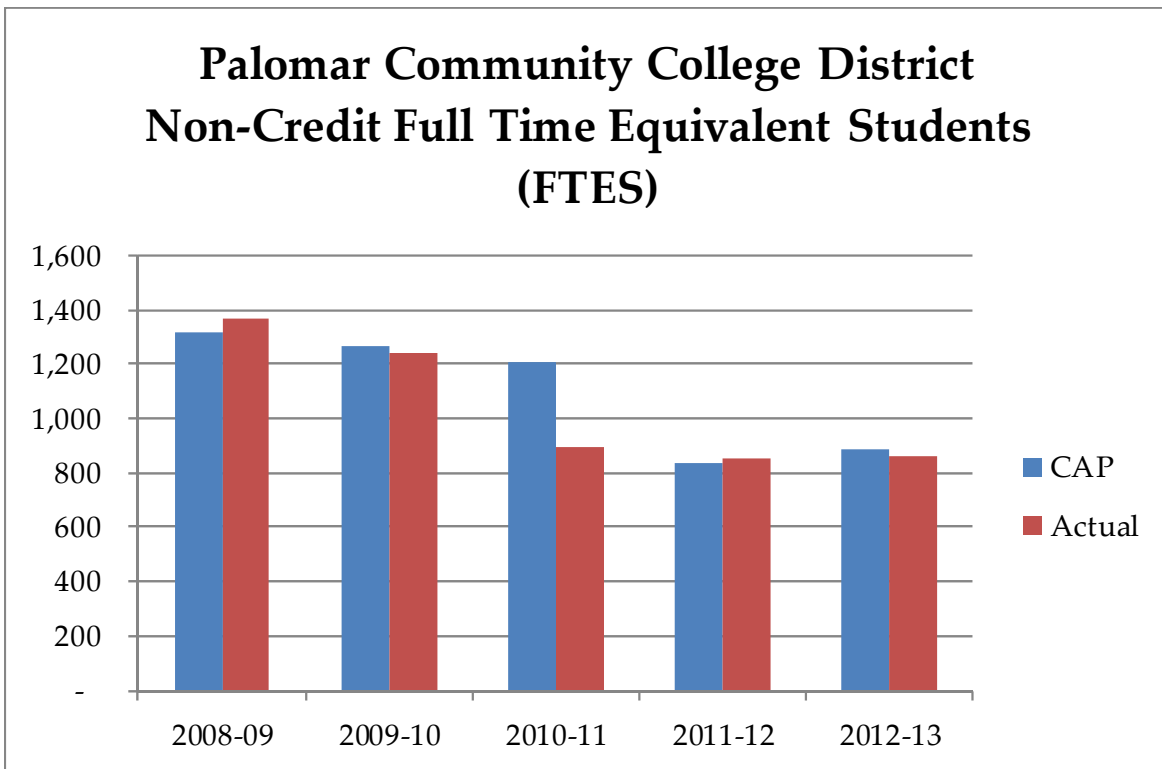
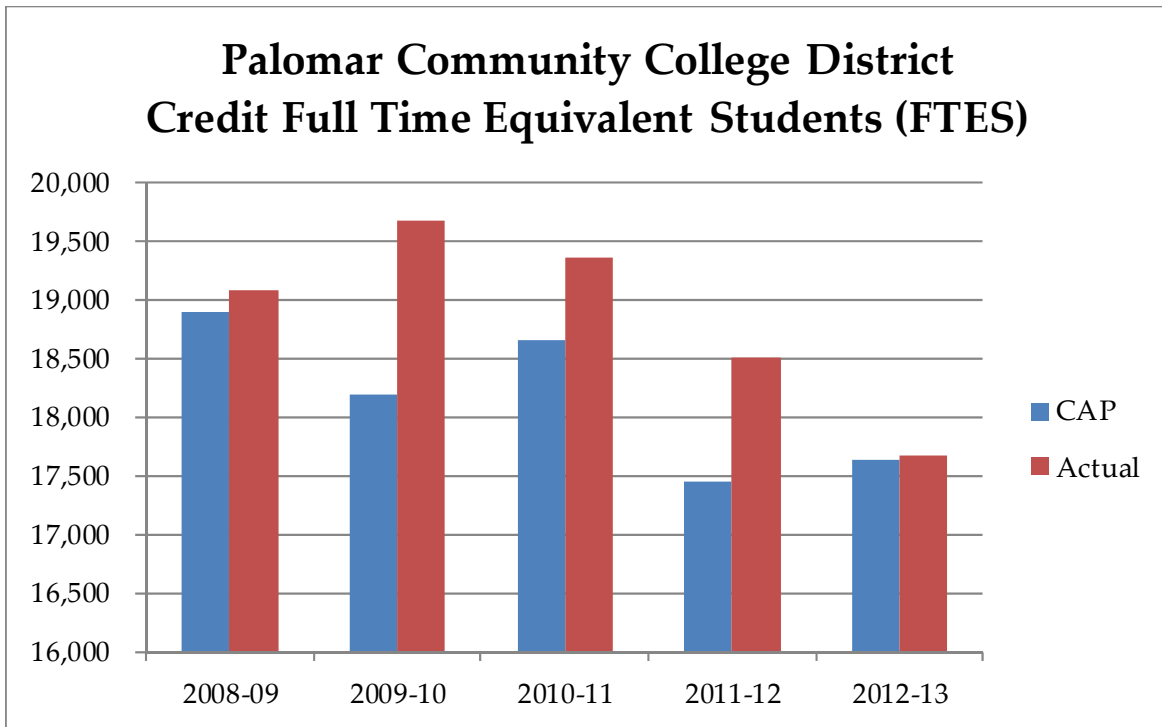
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**FINANCIAL AND ENROLLMENT HIGHLIGHTS (continued)**

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 remained 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 2012-13 the Districts' total actual FTES decreased approximately 1.8% for credit and decreased less than 1% for non-credit courses which resulted in an overall decrease of 1.7%. In anticipation of the possible impact of Proposition 30 failing, the Fall schedule was scaled down, however in Spring and FY13-14 additional class sections have been added. 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 2014), 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, 2013**

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**STATEMENT OF NET POSITION**

The *Statement of Net Position* presents the assets, liabilities, and Net Position 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 Position* 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 Position* presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net position (assets minus liabilities).

From the data presented, readers of the *Statement of Net Position* 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 Position* provides a picture of the net position and their availability for expenditure by the District.

The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the District; the change in net position 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 Position* listed on the *Statement of Net Position* is 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*; this net position 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*; this net position is 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, 2013**

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**STATEMENT OF NET POSITION (continued)**

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

	Governmental Activities		
	2013	2012	Net Change
<b>ASSETS</b>			
Current assets	\$ 177,640,354	\$ 233,817,063	\$ (56,176,709)
Non-current assets	310,193,601	253,612,474	56,581,127
<b>Total Assets</b>	<b>487,833,955</b>	<b>487,429,537</b>	<b>404,418</b>
<b>LIABILITIES</b>			
Current liabilities	27,879,916	23,123,628	4,756,288
Non-current liabilities	339,525,965	336,543,473	2,982,492
<b>Total Liabilities</b>	<b>367,405,881</b>	<b>359,667,101</b>	<b>7,738,780</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	94,052,966	93,032,222	1,020,744
Restricted	23,037,079	22,725,505	311,574
Unrestricted	3,338,029	12,004,709	(8,666,680)
<b>Total Net Assets</b>	<b>\$ 120,428,074</b>	<b>\$ 127,762,436</b>	<b>\$ (7,334,362)</b>

The District's total assets decreased \$7.3 million or 6.1% from the previous year. The majority of the increase in current liabilities was related to construction activities in the Proposition M bond building program which had more outstanding invoices as of the year ending FY12-13 when compared to year end FY11-12. The increase in non-current liabilities was due to additional accreted interest on the Proposition M bonds and an additional liability for the Other Post-Employment Benefits (OPEB).

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

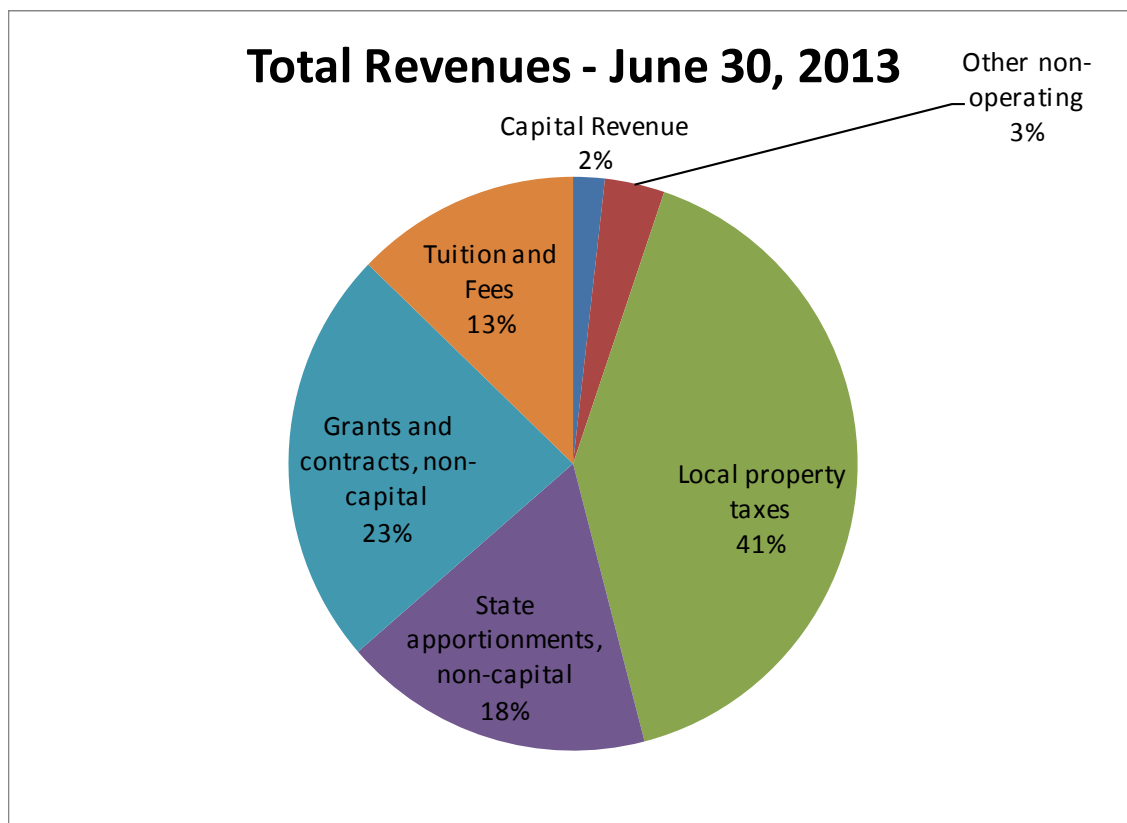
Changes in total net position as presented on the *Statement of Net Position* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Position*. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

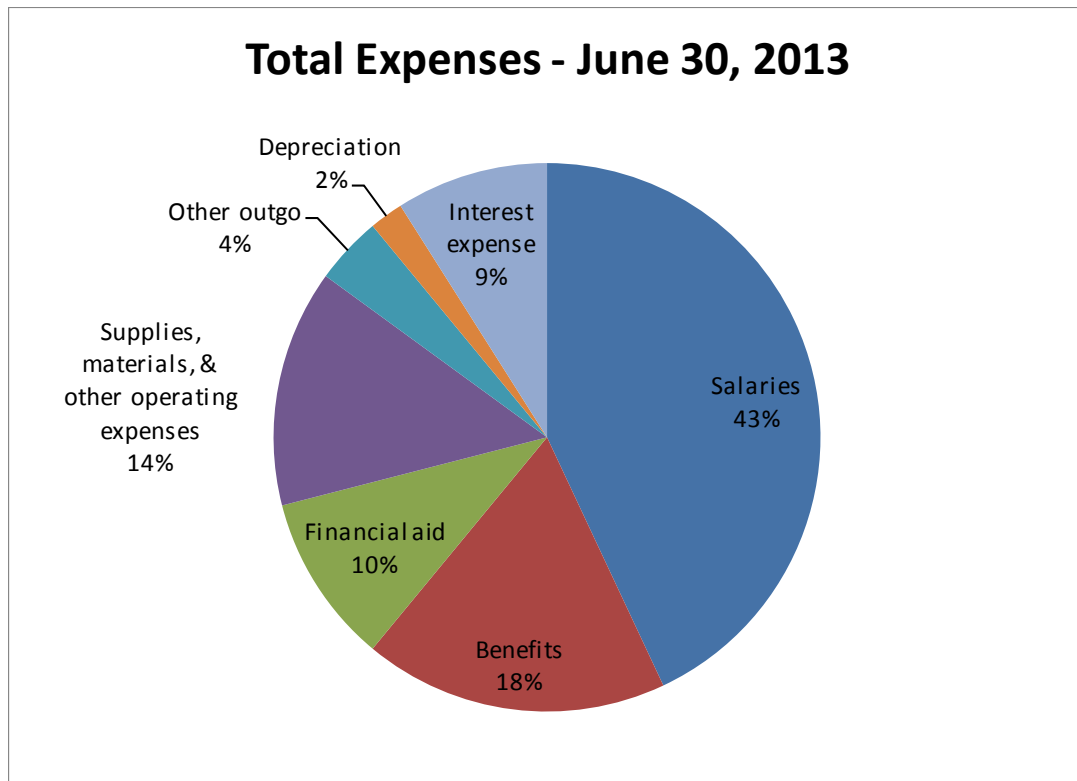
Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues earned and to fulfill the mission 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, 2013**

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



**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

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

	Governmental Activities		
	2013	2012	Net Change
<b>Revenues</b>			
Tuition and fees (net)	\$ 15,052,142	\$ 13,433,039	\$ 1,619,103
Grants and contracts, noncapital	35,456,545	34,155,092	1,301,453
General revenues - property taxes	70,357,051	67,933,372	2,423,679
General revenues - unrestricted federal and state aid	12,374,247	28,486,549	(16,112,302)
General revenues - other	20,917,352	10,105,717	10,811,635
<b>Total Revenue</b>	<b>154,157,337</b>	<b>154,113,769</b>	<b>43,568</b>
<b>Expenses</b>			
Operating expenses	155,474,928	153,930,504	1,544,424
Interest	16,943,143	17,256,910	(313,767)
<b>Total Expenses</b>	<b>172,418,071</b>	<b>171,187,414</b>	<b>1,230,657</b>
<b>Change in net assets</b>	<b>\$ (18,260,734)</b>	<b>\$ (17,073,645)</b>	<b>\$ (1,187,089)</b>

- 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. With the passage of Proposition 30, the taxes received are accounted for in an Education Protection Account. All funds that Palomar College receives from this State fund are not categorized as apportionment, but as other revenue. Palomar College received over \$13,700,000 from this fund for FY12-13 which accounts for the decrease in this category, and the subsequent increase in the General Revenue category.
- General revenues – this category includes the Education Protection Account funds described above, therefore it increased significantly.



**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

- 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 82% of the total operating expenses excluding depreciation and financial aid for all funds. The balance of the operating expenses is for supplies, other services, capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense. Financial Aid increased significantly as more students were seeking tuition assistance.

**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 Position.

A Statement of Cash Flows for the fiscal year ended June 30, 2013 and 2012 is summarized and presented below:

	2013	2012
Operating activities	\$ (98,577,433)	\$ (97,676,312)
Noncapital financing activities	109,989,271	99,885,034
Capital and related financing activities	(60,172,339)	(53,773,471)
Investing activities	871,754	1,238,805
Net Change in Cash and Cash Equivalents	(47,888,747)	(50,325,944)
Cash and Cash Equivalents - Beginning of Year	217,167,255	267,493,199
Cash and Cash Equivalents - End of Year	\$ 169,278,508	\$ 217,167,255

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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**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 offset by an increase in payments on behalf of students contributed to the 0.9% increase in net cash used by operating activities.
- Additional property taxes received as a result of the dissolution of redevelopment agencies, and collection of the 2011-12 apportionment deferrals 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).
- 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 Position and Changes in Fiduciary Net Position. 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, 2013**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

- As of June 30, 2013, the District had \$307.89 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 \$49.6 million. Depreciation expense of \$3.9 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 and Escondido Center. This included construction of the Humanities Building, Escondido Center Remodel, 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		
	2013	2012	Net Change
Land and construction in progress	\$ 181,762,313	\$ 127,707,178	\$ 54,055,135
Buildings and equipment	175,778,383	169,205,578	6,572,805
Accumulated depreciation	(49,640,985)	(45,691,263)	(3,949,722)
<b>Total Capital Assets</b>	<b>\$ 307,899,711</b>	<b>\$ 251,221,493</b>	<b>\$ 56,678,218</b>

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**Debt**

At June 30, 2013, the District had \$343.07 million in debt, \$5.3 million of this total is related to Lease Revenue Bonds and \$334.9 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 began 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		
	2013	2012	Net Change
General obligation bonds	\$ 334,908,767	\$ 331,835,915	\$ 3,072,852
Lease revenue bonds	5,345,000	5,820,000	(475,000)
Other long-term liabilities	2,822,198	2,107,558	714,640
<b>Total Long-term Liabilities</b>	<b>\$ 343,075,965</b>	<b>\$ 339,763,473</b>	<b>\$ 3,312,492</b>

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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**ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE**

Governor Jerry Brown's Fiscal Year 2013-14 budget showed good news for the state's economy and fiscal position. California Community Colleges received COLA of 1.57%, \$50 million for additional student support services, and \$89.4 million for general apportionment in growth and workload restoration. Under Proposition 39's 5-year plan, Palomar College will receive approximately \$3.34 million for energy efficiency projects.

The State does continue to build 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.

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 the 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 POSITION**  
**JUNE 30, 2013**

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 169,278,508
Investments	586,037
Accounts receivable	7,550,141
Prepaid expenses	216,195
Due from fiduciary funds	9,473
<b>Total Current Assets</b>	<b>177,640,354</b>

**NONCURRENT ASSETS**

Capitalized fees	2,293,890
Capital assets, net of accumulated depreciation	307,899,711
<b>Total Noncurrent Assets</b>	<b>310,193,601</b>
<b>TOTAL ASSETS</b>	<b>487,833,955</b>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	17,448,588
Deferred revenue	1,035,338
Accrued interest payable	2,761,235
Compensated absences	3,084,755
Current Portion - Long-term debt	3,550,000
<b>Total Current Liabilities</b>	<b>27,879,916</b>

**NONCURRENT LIABILITIES**

Noncurrent Portion - Long-term debt	339,525,965
<b>TOTAL LIABILITIES</b>	<b>367,405,881</b>

**NET POSITION**

Net investment in capital assets	94,052,966
Restricted for:	
Debt service	9,177,711
Capital projects	13,323,869
Other special services	535,499
Unrestricted	3,338,029
<b>TOTAL NET POSITION</b>	<b>\$ 120,428,074</b>

See accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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<b>OPERATING REVENUES</b>	
Student Tuition and Fees	\$ 25,350,691
Less: Scholarship discount & allowance	(10,298,549)
Net tuition & fees	<u>15,052,142</u>
Grants and Contracts, noncapital:	
Federal	24,938,986
State	7,746,875
Local	<u>2,770,684</u>
Subtotal	<u>35,456,545</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>50,508,687</b></u>
<b>OPERATING EXPENSES</b>	
Salaries	74,535,199
Benefits	34,035,381
Financial aid	18,618,612
Supplies, materials & other operating expenses	23,090,869
Depreciation	<u>5,194,867</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>155,474,928</b></u>
<b>OPERATING LOSS</b>	<u><b>(104,966,241)</b></u>
<b>NONOPERATING REVENUES/(EXPENSES)</b>	
State apportionments, non-capital	12,374,247
Local property taxes	68,065,086
State taxes & other revenues	17,083,480
Investment income - non-capital	(291,808)
Other local revenues	4,027,458
Interest expense	<u>(16,943,143)</u>
<b>TOTAL NONOPERATING REVENUES</b>	<u><b>84,315,320</b></u>
<b>LOSS BEFORE OTHER REVENUES AND GAINS</b>	<b>(20,650,921)</b>
<b>OTHER REVENUES AND GAINS/(LOSSES)</b>	
State apportionments, capital	98,222
Local property taxes and revenues, capital	<u>2,291,965</u>
<b>TOTAL OTHER REVENUES AND GAINS</b>	<u><b>2,390,187</b></u>
<b>CHANGE IN NET POSITION</b>	<b>(18,260,734)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u><b>127,762,436</b></u>
<b>ADJUSTMENT FOR RESTATEMENT (see Note 14)</b>	<b>10,926,372</b>
<b>NET POSITION, AS RESTATED</b>	<u><b>138,688,808</b></u>
<b>NET POSITION, END OF YEAR</b>	<u><b>\$ 120,428,074</b></u>

See accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$ 14,107,652
Grants and contracts	36,089,384
Payments to or on behalf of employees	(108,466,871)
Payments to vendors for supplies and services	(22,089,946)
Payments to students for scholarships and grants	(18,217,652)
Net Cash Used by Operating Activities	<u>(98,577,433)</u>

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

State apportionments	19,448,929
Property taxes	68,172,237
State taxes and other revenues	17,187,590
Other local revenues	5,180,515
Net Cash Provided by Non-capital Financing Activities	<u>109,989,271</u>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(49,084,653)
State apportionments, capital projects	98,222
Principal paid on capital debt	(3,220,000)
Interest paid on capital debt	(8,077,324)
Interest received on capital debt	111,416
Net Cash Used by Capital Financing Activities	<u>(60,172,339)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment income	871,754
Net Cash Provided/(Used) by Investing Activities	<u>871,754</u>

**NET DECREASE IN CASH & CASH EQUIVALENTS** (47,888,747)

**CASH & CASH EQUIVALENTS, BEGINNING OF YEAR** 217,167,255

**CASH & CASH EQUIVALENTS, END OF YEAR** \$ 169,278,508

See accompanying notes to the financial statements.



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF CASH FLOWS, continued**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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	2013
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (104,966,241)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation expense	5,194,867
Changes in Assets and Liabilities:	
Receivables, net	1,088,550
Prepaid items	(63,806)
Accounts payable and accrued liabilities	997,068
Deferred revenue	(722,102)
Compensated absences	(105,769)
Total Adjustments	<u>6,388,808</u>
<b>Net Cash Flows From Operating Activities</b>	<u>\$ (98,577,433)</u>

See accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2013**

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	<b>Fiduciary Funds Agency</b>
<b>ASSETS</b>	
Cash in county treasury	\$ 1,554,201
Cash on hand and in banks	120,742
Accounts receivable	10,759
<b>Total Assets</b>	<b>1,685,702</b>
<b>LIABILITIES</b>	
Accounts payable	3,454
Deferred revenue	37,234
<b>Total Liabilities</b>	<b>40,688</b>
<b>NET POSITION</b>	
Restricted Net Position	1,645,014
<b>Total Net Position</b>	<b>\$ 1,645,014</b>

See accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013**

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	<b>Fiduciary Funds Agency</b>
<b>Additions</b>	
Student fees	\$ 279,640
Interest and investment income	5,823
Contributions and other local revenues	579,023
<b>Total Additions</b>	<u>864,486</u>
<b>Deductions</b>	
Supplies and materials	34,040
Other operating expenses and services	57,966
Capital outlay	12,460
Student financial aid	700,747
<b>Total Deductions</b>	<u>805,213</u>
<b>CHANGE IN NET POSITION</b>	<u>59,273</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,585,741</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 1,645,014</u>

See accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**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, 2013**

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**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, 2013**

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**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, 2013, 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, 2013

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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 buildings 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 Position.

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 Position

**Net investment in capital assets:** 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 position - expendable:** Restricted expendable net position includes 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 position is available.

**Restricted net position - non-expendable:** Non-expendable restricted net position consists 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 position non-expendable.



PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2013

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

9. Net Position (continued)

**Unrestricted net position:** Unrestricted net position 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 2014 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 \$1,956,700 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 position. 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, 2013

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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, 2013, the District's bank balance of \$4,937,241 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, 2013, as provided by the pool sponsor, was \$164,289,812 and the book value was \$164,446,144. This decrease in fair value represents an unrealized decline in the pooled investments at June 30, 2013, but does not reflect an actual realized loss. 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, 2013

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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, 2013.

Cash and Investments at June 30, 2013 consisted of:

**Governmental Funds:**

Cash on hand and in banks	\$ 4,937,241
Cash in San Diego County Investment Pool	164,341,267
Investments	586,037
Total Cash and Investments	<u>\$ 169,864,545</u>

**Fiduciary Funds:**

Cash in San Diego County Investment Pool	\$ 1,554,201
Cash on hand	120,742
Total Cash	<u>\$ 1,674,943</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, 2013

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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. The District's investments as of June 30, 2013 consisted of \$193,956 in the Bayerische Landesbank, and \$392,081 in cash and short term investments held by The Bank of New York Mellon Trust Company.

NOTE 3 – ACCOUNTS RECEIVABLE

The accounts receivable balance as of June 30, 2013 consists of the following:

Federal	\$	951,263
State		5,456,547
Local		1,142,331
Total	\$	<u>7,550,141</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, 2013**

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**NOTE 5 – CAPITAL ASSETS**

The following provides a summary of changes in capital assets for the year ended June 30, 2013:

	Balance July 01, 2012	Adjustments	Additions	Deductions	Balance June 30, 2013
Capital Assets not being Depreciated					
Land	\$ 63,014,087	\$ -	\$ -	\$ -	\$ 63,014,087
Construction in progress	64,693,091	4,765,434	55,234,076	6,023,425	118,669,176
Other assets - arts	-	79,050	-	-	79,050
Total Capital Assets not being Depreciated	127,707,178	4,844,484	55,234,076	6,023,425	181,762,313
Capital Assets being Depreciated					
Land improvements	14,851,995	116,405	885,767	-	15,854,167
Buildings & improvements	136,302,239	7,308,479	-	1,477,540	142,133,178
Furniture & equipment	18,051,344	72,821	850,295	1,183,422	17,791,038
Total Capital Assets being Depreciated	169,205,578	7,497,705	1,736,062	2,660,962	175,778,383
Total Capital Assets	296,912,756	12,342,189	56,970,138	8,684,387	357,540,696
Less Accumulated Depreciation					
Land improvements	11,376,532	-	192,542	-	11,569,074
Buildings & improvements	20,396,448	1,477,294	3,527,406	1,477,540	23,923,608
Furniture & equipment	13,918,283	(61,477)	1,474,919	1,183,422	14,148,303
Total Accumulated Depreciation	45,691,263	1,415,817	5,194,867	2,660,962	49,640,985
Net Capital Assets	\$ 251,221,493	\$ 10,926,372	\$ 51,775,271	\$ 6,023,425	\$ 307,899,711

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2013**

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**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
2014	328,808
2015	329,313
2016	333,174
2017	336,251
Total	<u>\$ 1,327,546</u>

Current year expenditures for operating leases is approximately \$344,032. 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	
2014	\$ 80,000	\$ 121,805	\$ 201,805	
2015	85,000	118,125	203,125	
2016	90,000	113,874	203,874	
2017	95,000	109,600	204,600	
2018	100,000	104,850	204,850	
2019-2023	580,000	443,500	1,023,500	
2024-2028	755,000	266,520	1,021,520	
2029-2031	555,000	57,911	612,911	
Total	<u>\$ 2,340,000</u>	<u>\$ 1,336,185</u>	<u>\$ 3,676,185</u>	

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2013**

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**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	
2014	\$ 410,000	\$ 88,350	\$ 498,350	
2015	420,000	75,900	495,900	
2016	435,000	60,900	495,900	
2017	450,000	45,450	495,450	
2018	460,000	31,800	491,800	
2019-2020	830,000	23,100	853,100	
Total	\$ 3,005,000	\$ 325,500	\$ 3,330,500	

**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 consisting of \$160,000,000 of current interest bonds.

On October 28, 2010, the District issued General Obligation Bonds, Election of 2006, Series B consisting 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 consisting 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, 2013**

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**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, 2013 is:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding, July 1, 2012*	Accreted Interest Addition	Redeemed	Bonds Outstanding, June 30, 2013
Series A	5/2/2007	2032	4.25% - 5.0%	\$ 160,000,000	\$ 145,075,000	\$ -	\$ 2,745,000	\$ 142,330,000
Series B	10/28/2010	2046	2.36% - 6.72%	91,498,901	96,954,365	6,104,584	-	103,058,949
Series B-1	10/28/2010	2046	7.19%	83,500,000	83,500,000	-	-	83,500,000
				<u>\$ 334,998,901</u>	<u>\$ 325,529,365</u>	<u>\$ 6,104,584</u>	<u>\$ 2,745,000</u>	<u>\$ 328,888,949</u>

\*Includes \$6,955,464 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 on issuance 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, 2013**

**NOTE 8 - GENERAL OBLIGATION BONDS (continued)**

In addition, associated issuance costs are recorded as capitalized fees on the statement of net position 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 on issuance of \$1,565,029 and \$1,205,662, respectively. The annual requirements to amortize all Proposition M bonds payable, outstanding as of June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Accreted Interest	Interest Subsidy	Total
2014	\$ 3,060,000	\$ 12,813,040	\$ -	\$ (2,102,446)	\$ 13,770,594
2015	3,395,000	12,675,340	-	(2,102,446)	13,967,894
2016	4,015,651	12,505,590	29,350	(2,102,446)	14,448,145
2017	4,527,396	12,317,340	62,604	(2,102,446)	14,804,894
2018	5,294,535	12,109,340	170,465	(2,102,446)	15,471,894
2019-2023	36,449,292	56,649,450	4,805,708	(10,512,230)	87,392,220
2024-2028	51,625,739	63,281,220	10,299,262	(10,512,230)	114,693,991
2029-2033	52,653,996	78,586,607	8,481,004	(10,512,230)	129,209,377
2034-2038	28,833,009	81,194,460	62,646,991	(10,512,230)	162,162,230
2039-2043	37,223,475	52,401,212	71,146,527	(10,512,230)	150,258,984
2044-2046	88,750,808	11,251,086	12,849,188	(3,455,824)	109,395,258
Accreted Interest	13,060,048	-	(13,060,048)	-	-
	\$ 328,888,949	\$ 405,784,684	\$ 157,431,051	\$ (66,529,204)	\$ 825,575,480

\*Does not include accreted interest of \$13,060,048.

**NOTE 9 - LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2013 is shown below:

	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
<b>Long-Term Obligations</b>					
General obligation bonds	\$ 318,573,901	\$ -	\$ 2,745,000	\$ 315,828,901	\$ 3,060,000
Accreted Interest	6,955,464	6,104,584	-	13,060,048	-
Premium on bonds	6,306,550	-	286,732	6,019,818	-
Lease revenue bonds	5,820,000	-	475,000	5,345,000	490,000
Other postemployment benefits	2,107,558	714,640	-	2,822,198	-
Totals	\$ 339,763,473	\$ 6,819,224	\$ 3,506,732	\$ 343,075,965	\$ 3,550,000

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 2012-13 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, 2013**

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**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 2012-13 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
2011	\$ 3,419,568	100%	\$ 2,856,834	100%
2012	\$ 3,228,133	100%	\$ 2,921,158	100%
2013	\$ 3,116,366	100%	\$ 3,107,842	100%

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2013**

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**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, 2012, the date of the latest actuarial valuation.

Retirees receiving benefits	413
Active plan members	<u>687</u>
Total	<u>1,100</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 the fiscal year ended June 30, 2013, the District expenditures amount to \$5,644,972. The District maintains a post-retirement benefits fund to designate resources for retiree health costs. At June 30, 2013, the post-retirement benefit fund's ending fund balance was \$12,710,443. 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 \$1.8 million for 2012-13 to an irrevocable trust fund with the Community College League of California. As of August 1, 2012, the most recent actuarial valuation date, plan assets were valued at \$1,950,000. As of June 30, 2013 the District estimated plan assets to be \$3,601,486. These additional contributions made during the fiscal year 2012-13 will be recognized by the actuary as plan assets in the next study.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2013**

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**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	\$	6,335,753
Interest on net OPEB contribution		136,991
Adjustment to annual ARC		(113,132)
Annual OPEB cost (expense)		<u>6,359,612</u>
Contributions made		<u>(5,644,972)</u>
Increase in net OPEB obligation		714,640
Net OPEB obligation, Beginning of Year		<u>2,107,558</u>
Net OPEB obligation, End of Year	\$	<u>2,822,198</u>

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
6/30/2011	\$ 5,368,579	93.2%	\$ 2,235,928
6/30/2012	\$ 5,533,217	102.3%	\$ 2,107,558
6/30/2013	\$ 6,359,619	88.8%	\$ 2,822,198

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2013**

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

**Funding Status and Funding Progress**

As of August 1, 2012, the most recent actuarial valuation date, plan assets were valued at \$1,950,000. The actuarial accrued liability for benefits was \$84,229,998, and the unfunded actuarial accrued liability (UAAL) was also \$54,913,095. The covered payroll (annual payroll of active employees covered by the plan) was \$56,569,280, and the ratio of the UAAL to the covered payroll was 97.1%.

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, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 6.5% 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 \$12,710,443, these assets are not considered plan assets as defined by GASB Statement No. 45. An actuarial value of plan was determined to be \$1,950,000 as of August 1, 2012, the date of the most recent actuarial valuation. As of June 30, 2013 the District had valued plan assets at \$3,601,486. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was thirty years.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2013**

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**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, 2013**

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**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, 2103, the District is undergoing mediation with the City of Escondido to achieve resolution on outstanding amounts owed between the District and the successor agency.

**C. Purchase Commitments**

As of June 30, 2013, the District had commitments under various capital expenditure purchase agreements for construction and modernization projects totaling \$21,755,609. 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.

**NOTE 14 - ADJUSTMENT FOR RESTATEMENT**

The Palomar Community College District adopted the requirements of GASB Statement No. 62, specifically capitalizing interest as a part of the historical cost of constructing certain business-type activity assets. The beginning net position adjustment of \$10,926,372 is to account for historical interest and comply with GASB Statement No. 62.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF POST-EMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
8/1/2012	\$ 1,950,000	\$ 84,229,998	\$ 54,913,095	4%	\$ 56,569,280	97.1%
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 \$12,710,443 for future retiree health care costs in the Post-Retirement Benefits Fund.

On November 8, 2011, as part of the District's funding plan, the Governing Board authorized a transfer of approximately \$1.8 million for 2011-12 and \$1.8 million for 2012-13 to an irrevocable trust fund with the Community College League of California. The actuarial value of plan assets at August 1, 2012 was \$1,950,000. At June 30, 2013 the District value of plan assets was \$3,601,486.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**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.

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# **SUPPLEMENTARY INFORMATION**

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**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**HISTORY AND ORGANIZATION**  
**JUNE 30, 2013**

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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**

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<b>MEMBER</b>	<b>OFFICE</b>	<b>TERM EXPIRES</b>
Nancy C. Chadwick, M.S.W., M.P.A.	President	2016
Paul P. McNamara, B.A.	Vice President	2014
Mark R. Evilsizer, M.A.	Secretary	2014
John J. Halcón, Ph.D.	Trustee	2016
Nancy Ann Hensch	Trustee	2016

**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, 2013**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER*</u>	<u>FEDERAL EXPENDITURES</u>
<b>U.S. Department of Education</b>			
Direct			
Student Financial Assistance Cluster			
SEOG	84.007	N/A	\$ 306,300
Administrative Allowance	84.063	N/A	45,358
Pell Grant	84.063	N/A	14,815,239
Federal Work Study	84.033	N/A	194,673
Direct Loans	84.268	N/A	2,705,101
Total Student Financial Assistance Cluster			<u>18,066,671</u>
TRIO Cluster			
Educational Opportunity Centers	84.066	N/A	246,948
Student Support Services	84.042	N/A	271,003
Upward Bound	84.047	N/A	372,790
Talent Search	84.044	N/A	265,339
Total TRIO Cluster			<u>1,156,080</u>
Higher Education Act			
Veterans Education	84.12	N/A	15,452
Gear-Up	84.334A	N/A	2,664,914
Strengthening Institutions-Hispanic Serving Institutions-Title V	84.031S	N/A	1,347,093
Strengthening Institutions-Hispanic Serving Institutions-Title III	84.031C	N/A	664,563
Total direct form U.S. Department of Education			<u>4,692,022</u>
Pass Through the California Community College Chancellor's Office (CCCCO)			
Career and Technical Education (CTE)			
Perkins-Title II, Part C	84.048	13920	625,254
Perkins-Transitions	84.048	N/A	41,571
Total passed through from the CCCCCO			<u>666,825</u>
Total U.S. Department of Education			<u>24,581,598</u>
<b>U.S. Department of Health and Human Services</b>			
Pass Through the California Department of Education (CDE)			
Temporary Assistance for Needy Families	93.558	N/A	57,334
Child Development Training Consortium	93.575	13967	27,108
Total U.S. Department of Health and Human Services			<u>84,442</u>
<b>U.S. Department of Agriculture</b>			
Pass Through the California Department of Education (CDE)			
Child Nutrition	10.555	3755	42,508
Total U.S. Department of Agriculture			<u>42,508</u>
<b>U.S. Department of Labor</b>			
Direct/Pass-through			
Small Business Resource Center	59.037	N/A	1,444
Total U.S. Department of Labor			<u>1,444</u>
<b>U.S. Department of Justice</b>			
Direct/Pass-through			
Bulletproof Vest BVP OJP	16.607	N/A	2,145
Total U.S. Department of Justice			<u>2,145</u>
<b>National Science Foundation</b>			
Direct			
Advancing Geospatial Technology Pathways at Palomar College	47.076	N/A	155,791
Science, Technology, Engineering and Math Talent Expansion Program	47.076	N/A	69,519
Total National Science Foundation			<u>225,310</u>
<b>Total Federal Programs</b>			<u>\$ 24,937,447</u>

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF STATE FINANCIAL ASSISTANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Cash Received	Accounts Receivable	Deferred Income	Accounts Payable	Total	Program Expenditures
Apprentice Allowance	\$ 645,236	\$ -	\$ -	\$ -	\$ 645,236	\$ 645,236
Associate Nursing Degree Grant	128,005	24,382	-	-	152,387	152,387
Basic Skills	136,008	-	136,008	-	-	-
Board Financial Assistance Program	593,485	-	-	-	593,485	593,485
CalWORKS	168,313	-	-	4,772	163,541	163,541
Cooperative Agencies Resources for Education	78,802	-	-	200	78,602	78,602
Disable Student Programs & Services	692,659	-	-	-	692,659	692,659
Extended Opportunity Programs & Services	789,517	-	-	-	789,517	789,517
Faculty and Staff Diversity	9,016	1,054	-	-	10,070	10,070
Matriculation	806,563	-	-	-	806,563	806,563
Part-Time Faculty	421,311	-	-	-	421,311	421,311
Cal Grant	792,800	-	-	806	791,994	791,994
TTIP South	3,068,343	214,342	-	-	3,282,685	3,282,685
<b>Total State Programs</b>	<b>\$ 8,330,058</b>	<b>\$ 239,778</b>	<b>\$ 136,008</b>	<b>\$ 5,778</b>	<b>\$ 8,428,050</b>	<b>\$ 8,428,050</b>

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, 2013**

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<b>CATEGORIES</b>	<b>Reported Data</b>	<b>Audit Adjustments*</b>	<b>Audited Data</b>
<b>Credit Full-Time Equivalent Student (FTES)</b>			
1. Summer	1,412	-	1,412
2. Weekly census	11,556	-	11,556
3. Daily census	812	-	812
4. Actual hours of attendance	730	-	730
5. Alternative Attendance Weekly census	2,667	-	2,667
6. Alternative Attendance Daily census	490	-	490
Subtotal	17,667	-	17,667
<b>Noncredit FTES</b>			
1. Summer	117	-	117
2. Actual hours of attendance	747	-	747
Subtotal	864	-	864
Total FTES	18,531	-	18,531
<b>Basic Skills Courses</b>			
1. Credit			551
2. Noncredit			816
Total Basic Skills FTES			1,367

*\*No Audit Adjustments were booked during the fiscal year 2012-13*

**PALOMAR COMMUNITY COLLEGE DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FUND  
BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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The audit resulted in no adjustments to the fund balances reported on the June 30, 2013 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, 2013**

	(Budget) 2014		2013		2012		2011	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
General Fund:								
Revenue								
Federal	\$ 9,114,052	7.42	\$ 7,069,838	6.22	\$ 5,930,561	5.22	\$ 4,597,204	3.85
State	36,783,669	29.96	36,023,795	31.69	39,873,589	35.11	50,649,373	42.37
Local	76,891,925	62.62	70,566,395	62.09	67,776,920	59.67	64,286,975	53.78
Total revenue	<u>122,789,646</u>	<u>100.00</u>	<u>113,660,028</u>	<u>100.00</u>	<u>113,581,070</u>	<u>100.00</u>	<u>119,533,552</u>	<u>100.00</u>
Expenditures								
Academic salaries	44,969,560	36.39	43,604,781	36.81	44,975,707	40.44	47,255,030	39.88
Classified salaries	30,076,946	24.34	29,729,306	25.10	29,506,197	24.72	28,889,069	25.06
Employee benefits	28,393,957	22.98	27,263,253	23.02	26,566,406	21.60	25,238,189	20.48
Supplies and materials	1,807,517	1.46	1,756,098	1.48	2,118,405	1.68	1,959,574	1.64
Other operating expenses and services	10,920,844	8.84	11,793,218	9.96	12,079,214	9.58	11,191,711	10.29
Capital outlay	816,839	0.66	1,595,012	1.35	2,084,803	1.31	1,533,195	1.78
Other uses (net)	6,581,534	5.33	2,713,448	2.29	435,936	0.67	794,299	0.87
Total expenditures	<u>123,567,197</u>	<u>100.00</u>	<u>118,455,116</u>	<u>100.00</u>	<u>117,766,668</u>	<u>100.00</u>	<u>116,861,067</u>	<u>100.00</u>
Change in fund balance	<u>\$ (777,551)</u>	<u>(0.66)</u>	<u>\$ (4,795,088)</u>	<u>(4.05)</u>	<u>\$ (4,185,598)</u>	<u>(3.55)</u>	<u>\$ 2,672,485</u>	<u>2.29</u>
Ending fund balance	<u>\$ 17,559,842</u>	<u>14.82</u>	<u>\$ 18,337,393</u>	<u>15.48</u>	<u>\$ 23,132,481</u>	<u>19.64</u>	<u>\$ 27,318,079</u>	<u>23.38</u>
Full-time equivalent students	<u>19,051</u>		<u>19,051</u>		<u>19,368</u>		<u>20,251</u>	
Total long-term debt	<u>\$ 339,525,965</u>		<u>\$ 339,525,965</u>		<u>\$ 343,375,965</u>		<u>\$ 338,847,690</u>	

**Important Notes:**

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

Budget figures include adopted budget as of 9/10/2013.

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
RECONCILIATION OF THE ECS 84362 (50 PERCENT LAW) CALCULATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

		Activity (ESCA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ESCB) ECS 84362 B Total CEE AC 0100-6799		
	Object/ TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	19,108,932	-	19,108,932	19,108,932	-	19,108,932
Other	1300	13,790,008	-	13,790,008	13,790,008	-	13,790,008
Total Instructional Salaries		32,898,940	-	32,898,940	32,898,940	-	32,898,940
Non-Instructional Salaries							
Contract or Regular	1200	-	-	-	7,899,968	-	7,899,968
Other	1400	-	-	-	1,409,343	-	1,409,343
Total Non-Instructional Salaries		-	-	-	9,309,311	-	9,309,311
Total Academic Salaries		32,898,940	-	32,898,940	42,208,251	-	42,208,251
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status		-	-	-	18,902,215	-	18,902,215
Other		-	-	-	1,058,928	-	1,058,928
Total Non-Instructional Salaries		-	-	-	19,961,143	-	19,961,143
Instructional Aides							
Regular Status	2200	1,451,374	-	1,451,374	1,451,374	-	1,451,374
Other	2400	416,347	-	416,347	416,347	-	416,347
Total Instructional Aides		1,867,721	-	1,867,721	1,867,721	-	1,867,721
Total Classified Salaries		1,867,721	-	1,867,721	21,828,864	-	21,828,864
Employee Benefits	3000	10,395,393	-	10,395,393	23,798,346	-	23,798,346
Supplies and Materials	4000	-	-	-	769,158	-	769,158
Other Operating Expenses	5000	-	-	-	7,227,790	-	7,227,790
Equipment Replacement	6420	-	-	-	10,612	-	10,612
Total Expenditures Prior to Exclusions		45,162,054		45,162,054	95,843,021		95,843,021
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff-Retirees' Benefits and Retirement	5900	-	-	-	-	-	-
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	288,485	-	288,485
Non-instructional Staff-Retirees' Benefits and Retirement	6740	-	-	-	-	-	-
Object to Exclude							
Rents and Leases	5060	-	-	-	390,486	-	390,486
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000						
Software	4100	-	-	-	-	-	-
Books, Magazines & Periodicals	4200	-	-	-	-	-	-
Instructional Supplies & Materials	4300	-	-	-	-	-	-
Non-instructional Supplies & Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-
Other Operating Expenses and Services	5000	-	-	-	4,933,788	-	4,933,788
Capital Outlay	6000	-	-	-	-	-	-
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment	6420	-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	5,612,759	-	5,612,759
Total for ECS 84362, 50% Law		45,162,054	-	45,162,054	90,230,262	-	90,230,262
Percent of CEE (Instructional Salary Cost/Total CEE)		50.05%	0.00%	50.05%	100.00%	0.00%	100.00%
50% of Current Expense of Education					45,115,131	-	45,115,131

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
 DETAILS OF THE EDUCATION PROTECTION ACCOUNT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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<b>EPA Revenue</b>	13,733,451
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<b>Activity Classification</b>	<b>Activity Code</b>	<b>Salaries and Benefits</b>	<b>Operating Expenses</b>	<b>Capital Outlay</b>	<b>Total</b>
		<b>(Obj 1000-3000)</b>	<b>(Obj 4000-5000)</b>	<b>(Obj 6000)</b>	
Instructional Activities	0100-5900	13,733,451	-	-	13,733,451
Total		13,733,451	-	-	13,733,451

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**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, 2013 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.

**F. Reconciliation of the ECS 84362 (50 Percent Law) Calculation**

This schedule reports any audit adjustments made to the reported data to ensure that a minimum of 50 percent of the District's current expense of education is expended for salaries of classroom instructors.

**G. Detail of the Education Protection Account**

This schedule reports revenue and expenditure activity of the Education Protection Account (EPA) account created by Proposition 30, The Schools and Local Public Safety Protection Act of 2012.

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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**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**

Independent Auditors' Report

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palomar Community College District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Palomar Community College District's basic financial statements, and have issued our report thereon dated December 1, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Palomar Community College District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Palomar Community College District's internal control. Accordingly, we do not express an opinion on the effectiveness of Palomar Community College District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO  
LOS ANGELES  
SAN FRANCISCO/BAY AREA

Corporate Office:  
2727 Camino Del Rio South  
Suite 219  
San Diego, CA 92108

toll-free: 877.220.7229  
tel: 619.270.8222  
fax: 619.260.9085  
www.christywhite.com

*Licensed by the California  
State Board of Accountancy*



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Palomar Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Chetly White Associates". The signature is written in a cursive, flowing style.

San Diego, California  
December 1, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-**

**133**

**Independent Auditors' Report**

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

**Report on Compliance for Each Major Federal Program**

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, 2013. Palomar Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Palomar Community College District's major federal programs based on our audit of the types of compliance requirements referred to above. 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.

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

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Suite 219  
San Diego, CA 92108

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fax: 619.260.9085  
www.christywhite.com

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Palomar Community College District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Palomar Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

Management of Palomar Community College District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Palomar Community College District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Palomar Community College 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Christy White Associates*

San Diego, California  
December 1, 2013

## REPORT ON STATE COMPLIANCE

### Independent Auditors' Report

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

#### Corporate Office:

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San Diego, CA 92108

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

### **Report on State Compliance**

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) 2012-13*, issued by the California Community Colleges Chancellor's Office for the year ended June 30, 2013.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on Palomar Community College District's compliance with the requirements referred to above. 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 the *California Community Colleges Contracted District Audit Manual (CDAM) 2012-13*, 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 that could have a direct and material effect on the state programs noted below. 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 on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Palomar Community College District's compliance with those requirements.

### ***Opinion on State Compliance***

In our opinion, Palomar Community College District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2013.

### ***Procedures Performed***

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 Service 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 - Disabled Student Programs and Services (DSPS)  
Section 479 - To Be Arranged Hours (TBA)  
Section 490 - Proposition 1D State Bond Funded Projects  
Section 491- Proposition 30 Education Protection Account Funds

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing over state laws and regulations based on the requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2012-13*. Accordingly, this report is not suitable for any other purpose.



San Diego, California  
December 1, 2013

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## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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**PALOMAR COMMUNITY COLLEGE DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
84.007, 84.033, 84.063, 84.268	Student Financial Aid Cluster
84.334A	GEAR-UP
84.066, 84.042, 84.047, 84.044	TRIO Cluster
84.031S	Title V Hispanic Serving Institution

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 748,123
Auditee qualified as low-risk auditee?	Yes

**STATE AWARDS**

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



**PALOMAR COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO THE FINANCIAL  
STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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*There were no findings or questioned costs related to the financial statements during 2012-13.*

**PALOMAR COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

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*There were no findings or questioned costs related to federal awards during 2012-13.*

**PALOMAR COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

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*There were no findings or questioned costs related to state awards during 2012-13.*

**PALOMAR COMMUNITY COLLEGE DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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*There were no findings or questioned costs in the 2011-12 fiscal year.*