

# PALOMAR COMMUNITY COLLEGE DISTRICT

## AUDIT REPORT

JUNE 30, 2014



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, 2014**

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## FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

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### Report on the Financial Statements

We have audited the accompanying basic financial statements of the business-type activity and fiduciary funds of the Palomar Community College District, as of and for the year ended June 30, 2014, 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 Palomar Community College District, as of June 30, 2014, 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 November 28, 2014 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 "Christy White Associates".

San Diego, California

November 28, 2014

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

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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, 2014. 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 four outreach sites throughout north San Diego County in the following communities: Fallbrook, Pauma Valley, Mt. Carmel and Camp Pendleton. In addition, the District received California Postsecondary Education Commission (CPEC) and Board of Governors (BOG) approval for its North Education Center. 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 9,900 students attend during summer semester. Approximately 32% of the students are enrolled full-time, while about 61% are enrolled part-time in credit classes, and 7% are enrolled in non-credit classes. About 62% of our students are aged 24 or younger, while 38% are 25 or older.



**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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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.

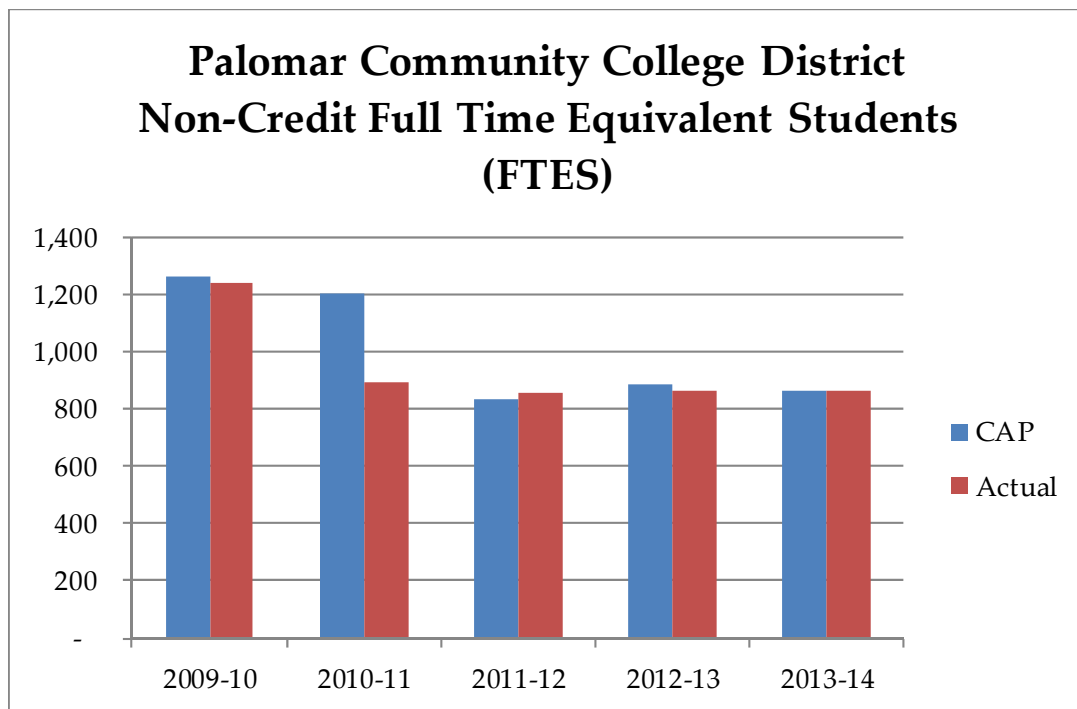
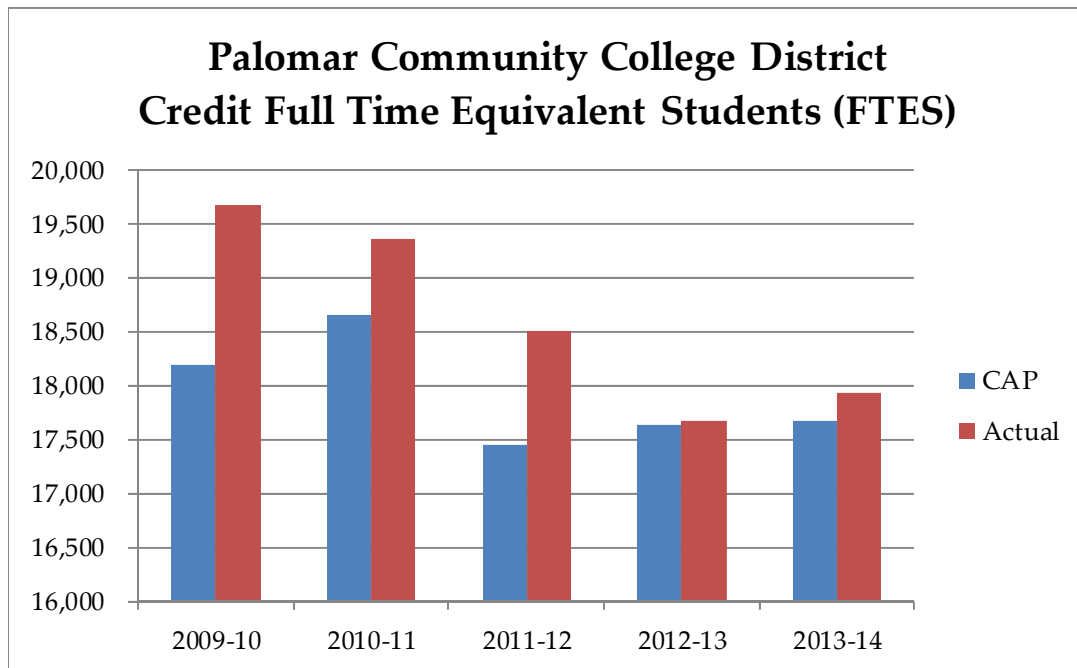
- Capital Assets Schedule
- Long Term Debt Schedule

The State of California's economic situation has been slowly recovering, and the State has been sharing part of the recovery with the California Community Colleges in the form of restoration of previous cuts and increasing funding for categorical and block grant funds. Deficit coefficients continue to be applied, but are diminishing in amount. Unfortunately the restoration is tied to actual growth in Full Time Equivalent Students (FTES) which means the District has to continue to grow its class offerings. At a time when everyone State wide scaled back their instructional programs because of the cuts to funding, suddenly gearing up to not only accommodate growth, but to chase it, can be difficult.

For FY 2013-14 the Districts' total actual FTES increased approximately 1.5% for credit and remained stable for non-credit courses which resulted in an overall increase of 1.5%. 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. 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 2015), 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, 2014**

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**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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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, *Net Investment in Capital Assets*, 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, 2014**

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**STATEMENT OF NET POSITION (continued)**

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

	2014	2013	Net Change
<b>ASSETS</b>			
Current assets	\$ 137,105,621	\$ 177,640,354	\$ (40,534,733)
Non-current assets	320,493,702	310,193,601	10,300,101
<b>Total Assets</b>	<b>457,599,323</b>	<b>487,833,955</b>	<b>(30,234,632)</b>
<b>LIABILITIES</b>			
Current liabilities	22,277,919	27,879,916	(5,601,997)
Non-current liabilities	342,896,555	339,525,965	3,370,590
<b>Total Liabilities</b>	<b>365,174,474</b>	<b>367,405,881</b>	<b>(2,231,407)</b>
<b>NET POSITION</b>			
Net investment in capital assets	87,870,596	94,052,966	(6,182,370)
Restricted	20,699,825	23,037,079	(2,337,254)
Unrestricted	(16,145,572)	3,338,029	(19,483,601)
<b>Total Net Position</b>	<b>\$ 92,424,849</b>	<b>\$ 120,428,074</b>	<b>\$ (28,003,225)</b>

The District's total assets decreased \$30 million or 6.2% from the previous year, which was mostly due to the spending of cash on the District's Proposition M bond building program. The majority of the decrease in current liabilities was related to construction activities in the Proposition M bond building program which had less outstanding invoices as of the year ending FY13-14 when compared to year end FY12-13. 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**

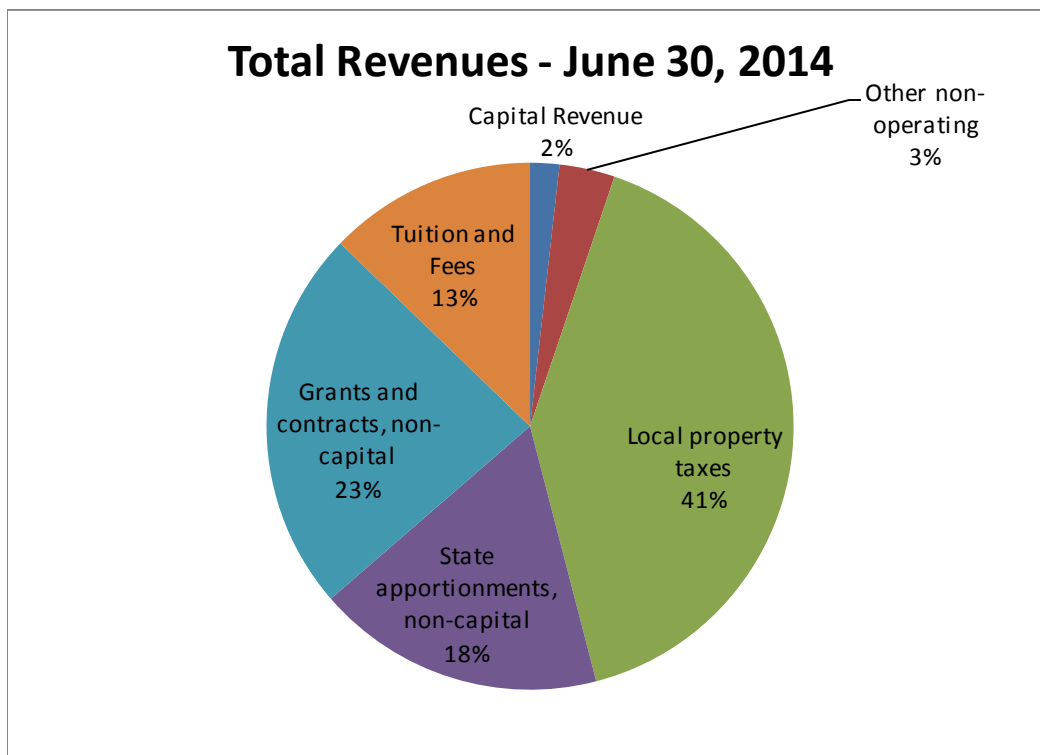
Changes in total net position as presented on the *Statement of Net Position* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Position*. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, 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, 2014**

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

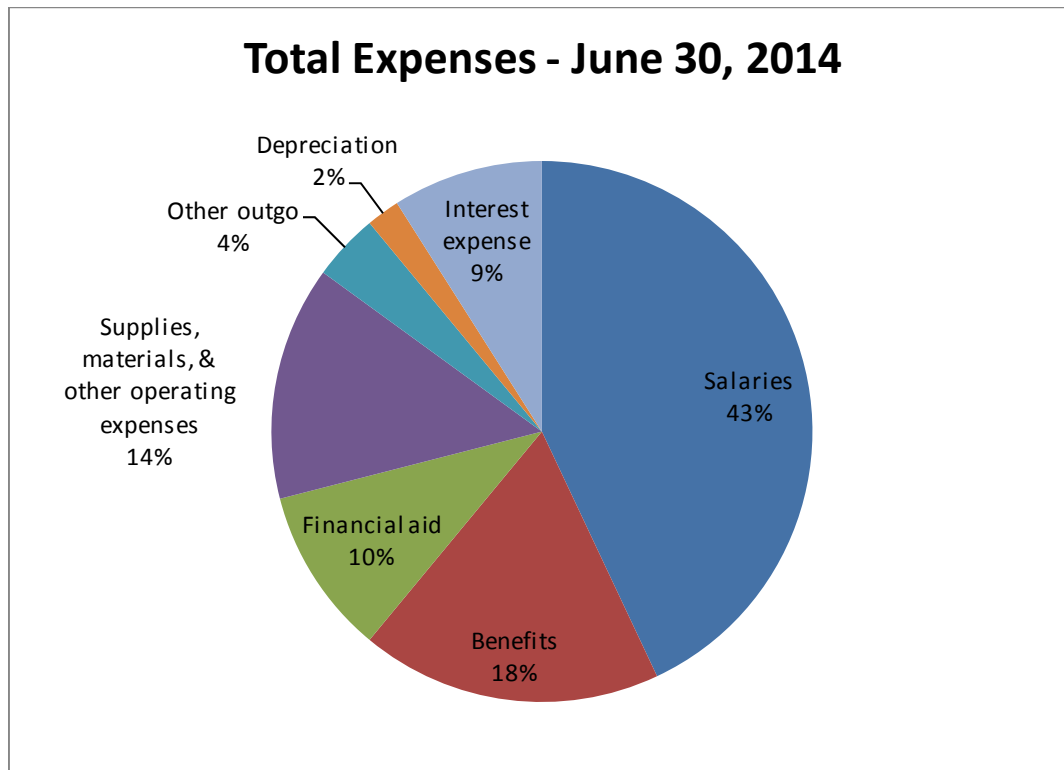
Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues earned and to fulfill the mission 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, 2014**

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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, 2014**

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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:

	2014	2013	Net Change
<b>REVENUES</b>			
Tuition and fees (net)	\$ 15,380,379	\$ 15,052,142	\$ 328,237
Grants and contracts, noncapital	36,626,146	35,456,545	1,169,601
General revenues - property taxes	70,026,624	70,357,051	(330,427)
General revenues - unrestricted federal and state aid	17,594,528	12,374,247	5,220,281
General revenues - other	24,886,468	20,917,352	3,969,116
<b>Total Revenue</b>	<b>164,514,145</b>	<b>154,157,337</b>	<b>10,356,808</b>
<b>EXPENSES</b>			
Operating expenses	172,036,458	155,474,928	16,561,530
Interest	18,187,022	16,943,143	1,243,879
<b>Total Expenses</b>	<b>190,223,480</b>	<b>172,418,071</b>	<b>17,805,409</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ (25,709,335)</b>	<b>\$ (18,260,734)</b>	<b>\$ (7,448,601)</b>
<b>NET POSITION - BEGINNING, AS RESTATED*</b>	<b>\$ 118,134,184</b>	<b>\$ 127,762,436</b>	<b>\$ (9,628,252)</b>
<b>ENDING NET POSITION</b>	<b>\$ 92,424,849</b>	<b>\$ 120,428,074</b>	<b>\$ (28,003,225)</b>

\* Restatement to Beginning Net Position relates to the 2014 year only

- 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.
- General revenues - unrestricted federal and state aid represents the amount received from the State based on FTES. This increased due to funds received from the State for restoration, COLA and a decrease in the deficit coefficient.
- General revenues – this category includes the Education Protection Account funds received as a result of Proposition 30. This increase was due to the recording of the STRS payments on behalf of the District made by the State.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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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. A raise given in FY13-14 increased the salaries paid. In the Personnel costs made up 84% of the total operating expenses excluding depreciation, Prop M expenditures 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, 2014 and 2013 is summarized and presented below:

	2014	2013
Operating activities	\$ (118,093,896)	\$ (98,577,433)
Noncapital financing activities	115,707,175	109,989,271
Capital and related financing activities	(42,637,079)	(60,172,339)
Investing activities	920,461	871,754
Net Change in Cash and Cash Equivalents	(44,103,339)	(47,888,747)
Cash and Cash Equivalents - Beginning of Year	169,278,508	217,167,255
Cash and Cash Equivalents - End of Year	\$ 125,175,169	\$ 169,278,508

Cash and Cash Equivalents Consists of the Following:

Cash on hand and in banks	\$ 5,443,114
Cash in county treasury	119,732,055
Total Cash and Cash Equivalents	\$ 125,175,169



**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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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. The increase was due mostly to payments to vendors for Prop M construction related items and an increase in payments to or on behalf of employees, which includes \$2 million of STRS payments made on behalf of the District by the State.
- Restoration and COLA payments received from the State explains the majority of the increase in non-capital financing activities.
- The primary amounts included in capital and related financing activities are any financing activities and the purchase of capital assets (building improvements and equipment). The decrease was due to an decrease in the acquisition and construction of capital assets in the Prop M program.
- 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, 2014**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2014, the District had \$320.5 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 \$60 million. Depreciation expense of \$7.4 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. These activities included design and construction of the Humanities Building, Escondido Center Remodel, Baseball Field Relocation and Child Development Center.

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

	2014	2013	Net Change
Land and construction in progress	\$ 149,039,307	\$ 181,762,313	\$ (32,723,006)
Buildings and equipment	222,424,481	175,778,383	46,646,098
Accumulated depreciation	(50,970,086)	(49,640,985)	(1,329,101)
<b>Total Capital Assets</b>	<b>\$ 320,493,702</b>	<b>\$ 307,899,711</b>	<b>\$ 12,593,991</b>

**Debt**

At June 30, 2014, the District had \$350.2 million in debt, \$4.9 million of this total is related to Lease Revenue Bonds and \$338.1 million is related to 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. The increase in General obligation bond debt is related to interest which has accreted to the bonds. Compensated absences had been reported as a current liability in past audit reports, which is why there is no dollar amount for 2013 in the long-term debt schedule. The amount for 2013 in current liabilities was \$3.1 million. An additional long-term debt of \$3.9 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:

	2014	2013	Net Change
General obligation bonds	\$ 338,055,899	\$ 334,908,767	\$ 3,147,132
Lease revenue bonds	4,855,000	5,345,000	(490,000)
Compensated absences	3,386,413	-	3,386,413
Other long-term liabilities	3,885,656	2,822,198	1,063,458
<b>Total Long-term Liabilities</b>	<b>\$ 350,182,968</b>	<b>\$ 343,075,965</b>	<b>\$ 7,107,003</b>

**PALOMAR COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE**

Governor Jerry Brown's Fiscal Year 2014-15 budget continued to reflect good news for the State's economy and fiscal position. California Community Colleges received COLA of .85%, \$200 million for additional student support services, and \$140.4 million for general apportionment in workload restoration. Also in the budget is \$148 million for deferred maintenance and instructional equipment on a one time basis. Under Proposition 39's 5-year plan, Palomar College will receive approximately \$500,000 for energy efficiency projects.

The District will be refunding approximately \$130 million in Proposition M Series A bonds during FY14-15 and issuing Series C bonds in the amount of \$220 million to continue the District's capital improvement plans.

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, 2014**

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 5,443,114
Investments	119,732,055
Accounts receivable	11,534,764
Prepaid expenses	395,688
<b>Total Current Assets</b>	<b>137,105,621</b>

**NONCURRENT ASSETS**

Capital assets, net of accumulated depreciation	320,493,702
<b>Total Noncurrent Assets</b>	<b>320,493,702</b>
<b>TOTAL ASSETS</b>	<b>457,599,323</b>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	10,162,649
Deferred revenue	1,164,472
Accrued interest payable	3,664,385
Current Portion - Long-term debt	7,286,413
<b>Total Current Liabilities</b>	<b>22,277,919</b>

**NONCURRENT LIABILITIES**

Noncurrent Portion - Long-term debt	342,896,555
<b>TOTAL LIABILITIES</b>	<b>365,174,474</b>

**NET POSITION**

Net investment in capital assets	87,870,596
Restricted for:	
Debt service	8,719,311
Capital projects	11,706,191
Other special services	274,323
Unrestricted	(16,145,572)
<b>TOTAL NET POSITION</b>	<b>\$ 92,424,849</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, 2014**

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<b>OPERATING REVENUES</b>	
Student Tuition and Fees	\$ 26,129,521
Less: Scholarship discount & allowance	(10,749,142)
Net tuition & fees	<u>15,380,379</u>
Grants and Contracts, noncapital:	
Federal	24,879,425
State	9,744,931
Local	<u>2,001,790</u>
Subtotal Grants and Contracts, noncapital:	<u>36,626,146</u>
<b>Total Operating Revenues</b>	<u>52,006,525</u>
<b>OPERATING EXPENSES</b>	
Salaries	78,243,816
Benefits	36,181,308
Financial aid	19,633,317
Supplies, materials & other operating expenses	30,589,714
Depreciation	<u>7,388,303</u>
<b>Total Operating Expenses</b>	<u>172,036,458</u>
<b>OPERATING LOSS</b>	<u>(120,029,933)</u>
<b>NONOPERATING REVENUES/(EXPENSES)</b>	
State apportionments, noncapital	17,594,528
Local property taxes	67,878,984
State taxes & other revenues	19,764,916
Investment income - noncapital	993,697
Other local revenues	3,459,573
Interest expense	<u>(18,187,022)</u>
<b>Total Nonoperating Revenues</b>	<u>91,504,676</u>
<b>LOSS BEFORE OTHER REVENUES AND GAINS</b>	<u>(28,525,257)</u>
<b>OTHER REVENUES AND GAINS/(LOSSES)</b>	
State apportionments, capital	668,282
Local property taxes and revenues, capital	<u>2,147,640</u>
<b>Total Other Revenues and Gains</b>	<u>2,815,922</u>
<b>CHANGE IN NET POSITION</b>	<u>(25,709,335)</u>
<b>NET POSITION - BEGINNING, AS RESTATED</b>	<u>118,134,184</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 92,424,849</u>

See accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$ 15,666,666
Grants and contracts	37,527,606
Payments to or on behalf of employees	(115,177,512)
Payments to vendors for supplies and services	(36,477,339)
Payments to students for scholarships and grants	(19,633,317)
Net Cash Used by Operating Activities	<u>(118,093,896)</u>

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

State apportionments	24,603,702
Property taxes	67,878,984
State taxes and other revenues	19,764,916
Other local revenues	3,459,573
Net Cash Provided by Non-capital Financing Activities	<u>115,707,175</u>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(23,789,215)
State apportionments, capital projects	668,282
Local revenues, capital projects	2,147,640
Principal paid on capital debt	(3,550,000)
Interest paid on capital debt	(18,187,022)
Interest received on capital debt	73,236
Net Cash Used by Capital Financing Activities	<u>(42,637,079)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment income	920,461
Net Cash Provided by Investing Activities	<u>920,461</u>

**NET DECREASE IN CASH & CASH EQUIVALENTS** (44,103,339)

**CASH & CASH EQUIVALENTS, BEGINNING OF YEAR** 169,278,508

**CASH & CASH EQUIVALENTS, END OF YEAR** \$ 125,175,169

See accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF CASH FLOWS, continued**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

Operating loss	\$ (120,029,933)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation expense	7,388,303
Changes in Assets and Liabilities:	
Receivables, net	3,984,623
Prepaid items	179,493
Accounts payable and accrued liabilities	(10,047,174)
Deferred revenue	129,134
Compensated absences	301,658
Total Adjustments	<u>1,936,037</u>
<b>Net Cash Used by Operating Activities</b>	<u>\$ (118,093,896)</u>

**CASH AND CASH EQUIVALENTS CONSISTS OF THE FOLLOWING:**

Cash on hand and in banks	\$ 5,443,114
Cash in county treasury	<u>119,732,055</u>
<b>Total Cash and Cash Equivalents</b>	<u>\$ 125,175,169</u>

**NONCASH TRANSACTIONS**

On behalf payments for benefits	<u>\$ 2,036,267</u>
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**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2014**

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**ASSETS**

Cash in county treasury	\$ 1,581,834
Cash on hand and in banks	128,724
Accounts receivable	10,108
<b>Total Assets</b>	<u>1,720,666</u>

**LIABILITIES**

Accounts payable	11,351
Deferred revenue	41,924
<b>Total Liabilities</b>	<u>53,275</u>

**NET POSITION**

Restricted	<u>1,667,391</u>
<b>Total Net Position</b>	<u>\$ 1,667,391</u>

See accompanying notes to the financial statements.



**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**Additions**

Student fees	\$ 291,621
Interest and investment income	5,769
Contributions and other local revenues	589,877
<b>Total Additions</b>	<u>887,267</u>

**Deductions**

Salaries	1,602
Supplies and materials	25,791
Other operating expenses and services	59,201
Capital outlay	13,055
Student financial aid	765,241
<b>Total Deductions</b>	<u>864,890</u>

<b>CHANGE IN NET POSITION</b>	<u>22,377</u>
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<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,645,014</u>
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<b>NET POSITION, END OF YEAR</b>	<u>\$ 1,667,391</u>
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See accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Palomar Community College District (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.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASBS No. 39, *Determining Whether Certain Organizations Are Component Units* and GASBS No. 61, *The Financial Reporting Entity: Omnibus*, and thus are included in the financial statements of 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. Separate financial statements for the Foundation may be obtained through the District.

**B. Financial Statement Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments and including Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, issued in June and November 1999 and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 and No. 35, as amended by GASB Statements No. 37 and No. 38, provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund and the Retiree Benefits Fund, are excluded from the basic financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

For internal accounting purposes, the budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's Budget and Accounting Manual.

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

By State law, the District's Governing Board must approve a budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

In accordance with GASB Statement No. 20, the District follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superseded or rescinded. The District also applies all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB.

1. Cash and Cash Equivalents

Cash in the County Treasury is recorded at fair value, in accordance with the requirements of GASB Statement No. 31. The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grant and contracts. All material receivables are considered fully collectible. Student loans receivable are included in accounts receivable and consist of loan advances to students awarded under the student financial aid programs the District administers for federal agencies. Student loans receivable are recorded net of cancelled principal. The receivables are held in trust for the awarding federal agency.

3. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2014, 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.

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.

8. Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

9. 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.

10. Net Position

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represent the difference between assets and liabilities. The net position is classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Net Investment in Capital Assets: Consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component of net investment in capital assets.

Restricted: Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

11. 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 2015 will be recorded in the year computed by the State.

12. 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.

13. On-Behalf Payments

GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, 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 expenditure by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement Systems (STRS) on behalf of all Community Colleges in California. The amount of on-behalf payments made for the District is estimated at \$2,036,267 for STRS for the year ended June 30, 2014. This amount has been reflected in the basic financial statements as a component of non-operating revenue and employee benefit expense.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

14. 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.

15. 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.

16. 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, 2014**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Accounting (continued)**

**17. 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, 2014, the District's bank balance of \$5,571,838 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, 2014, as provided by the pool sponsor, was \$121,313,889. This increase in fair value represents an unrealized gain in the pooled investments at June 30, 2014, but does not reflect an actual realized gain. Interest earned is deposited monthly into participating funds. Any investment gains/losses are proportionately shared by all funds in the pool.

PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014

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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, 2014.

Cash and Investments at June 30, 2014 consisted of:

Primary Government	\$ 125,175,169
Fiduciary Funds	1,710,558
Total Cash and Investments	<u>\$ 126,885,727</u>
Cash on hand and in banks	\$ 5,571,838
Investments	121,313,889
Total Cash and Investments	<u>\$ 126,885,727</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, 2014

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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.

NOTE 3 – ACCOUNTS RECEIVABLE

The accounts receivable balance as of June 30, 2014 consists of the following:

	Primary Government	Fiduciary Funds
Federal	\$ 658,378	\$ 10,108
State	8,998,089	-
Local	1,878,297	-
Total	<u>\$ 11,534,764</u>	<u>\$ 10,108</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, 2014**

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**NOTE 5 – CAPITAL ASSETS**

The following provides a summary of changes in capital assets for the year ended June 30, 2014:

	Balance July 01, 2013	Additions	Deductions	Balance June 30, 2014
Capital Assets not being Depreciated				
Land	\$ 63,014,087	\$ -	\$ -	\$ 63,014,087
Construction in progress	118,669,176	19,615,432	52,338,438	85,946,170
Other assets - arts	79,050	-	-	79,050
Total Capital Assets not being Depreciated	181,762,313	19,615,432	52,338,438	149,039,307
Capital Assets being Depreciated				
Land improvements	15,854,167	-	-	15,854,167
Buildings & improvements	142,133,178	51,534,672	5,702,115	187,965,735
Furniture & equipment	17,791,038	1,170,628	357,087	18,604,579
Total Capital Assets being Depreciated	175,778,383	52,705,300	6,059,202	222,424,481
Total Capital Assets	357,540,696	72,320,732	58,397,640	371,463,788
Less Accumulated Depreciation				
Land improvements	11,569,074	440,345	-	12,009,419
Buildings & improvements	23,923,608	5,112,257	5,702,115	23,333,750
Furniture & equipment	14,148,303	1,835,701	357,087	15,626,917
Total Accumulated Depreciation	49,640,985	7,388,303	6,059,202	50,970,086
Net Capital Assets	\$ 307,899,711	\$ 64,932,429	\$ 52,338,438	\$ 320,493,702

Depreciation expense for the year was \$7,388,303.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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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
2015	\$ 334,776
2016	339,217
2017	341,814
2018	12,031
Total	<u>\$ 1,027,838</u>

Current year expenditures for operating leases are approximately \$332,679. 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 Ending				
June 30,	Principal	Interest	Total	
2015	\$ 85,000	\$ 118,125	\$ 203,125	
2016	90,000	113,875	203,875	
2017	95,000	109,600	204,600	
2018	100,000	104,850	204,850	
2019	105,000	99,850	204,850	
2020-2024	610,000	412,938	1,022,938	
2025-2029	795,000	225,675	1,020,675	
2030-2031	380,000	29,469	409,469	
Total	<u>\$ 2,260,000</u>	<u>\$ 1,214,382</u>	<u>\$ 3,474,382</u>	

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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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 Ending				
June 30,	Principal	Interest	Total	
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	475,000	17,775	492,775	
2020	355,000	5,325	360,325	
Total	\$ 2,595,000	\$ 237,150	\$ 2,832,150	

**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, 2014**

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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, 2014 is:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding, July 1, 2013	Additions	Deletions	Bonds Outstanding, June 30, 2014*
Series A	5/2/2007	2032	4.25% - 5.0%	\$ 160,000,000	\$ 142,330,000	\$ -	\$ 3,060,000	\$ 139,270,000
Series B	10/28/2010	2046	2.36% - 6.72%	91,498,901	103,058,949	6,493,864	-	109,552,813
Series B-1	10/28/2010	2046	7.19%	83,500,000	83,500,000	-	-	83,500,000
				<u>\$ 334,998,901</u>	<u>\$ 328,888,949</u>	<u>\$ 6,493,864</u>	<u>\$ 3,060,000</u>	<u>\$ 332,322,813</u>

\*Includes \$19,553,912 in accreted interest as of June 30, 2014.

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, 2014**

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

The annual requirements to amortize all Proposition M bonds payable, outstanding as of June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Interest Subsidy	Total
2015	\$ 3,395,000	\$ 12,675,340	\$ (2,102,447)	\$ 13,967,893
2016	4,015,650	12,534,940	(2,102,447)	14,448,143
2017	4,527,396	12,379,944	(2,102,447)	14,804,893
2018	5,294,535	12,279,805	(2,102,447)	15,471,893
2019	5,892,695	12,172,395	(2,102,447)	15,962,643
2020-2024	40,134,221	62,060,979	(10,512,233)	91,682,967
2025-2029	53,877,335	76,744,398	(10,512,233)	120,109,500
2030-2034	44,303,360	99,931,296	(10,512,233)	133,722,423
2035-2039	34,843,226	142,117,121	(10,512,233)	166,448,114
2040-2044	51,450,008	109,218,060	(10,247,853)	150,420,215
2045-2046	65,035,475	11,348,464	(1,617,746)	74,766,193
Accretion	19,553,912	(19,553,912)	-	-
	<u>\$ 332,322,813</u>	<u>\$ 543,908,830</u>	<u>\$ (64,426,766)</u>	<u>\$ 811,804,877</u>

**NOTE 9 - LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2014 is shown below:

	Balance July 01, 2013	Adjustments/ Restatements	Additions	Deductions	Balance June 30, 2014	Due Within One Year
General obligation bonds	\$ 315,828,901	\$ -	\$ -	\$ 3,060,000	\$ 312,768,901	\$ 3,395,000
Accreted interest	13,060,048	-	6,493,864	-	19,553,912	-
Premium on bonds	6,019,818	-	-	286,732	5,733,086	-
Lease revenue bonds	5,345,000	-	-	490,000	4,855,000	505,000
Compensated absences	-	3,084,755	301,658	-	3,386,413	3,386,413
Other postemployment benefits	2,822,198	-	1,063,458	-	3,885,656	-
Totals	<u>\$ 343,075,965</u>	<u>\$ 3,084,755</u>	<u>\$ 7,858,980</u>	<u>\$ 3,836,732</u>	<u>\$ 350,182,968</u>	<u>\$ 7,286,413</u>

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



**NOTE 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 a statutorily 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 2013-2014 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, 2014**

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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**

Prior to January 1, 2013, active plan members are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA), specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

Active plan members are required to contribute 7.0% of their salary. 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 required employer contribution for fiscal year 2013-2014 was 11.442% of annual payroll. The contribution requirements of the plan members are established and may be amended by the 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
2012	\$ 3,228,133	100%	\$ 2,921,158	100%
2013	\$ 3,116,366	100%	\$ 3,107,842	100%
2014	\$ 3,377,399	100%	\$ 3,301,750	100%

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS (continued)**

**On Behalf Payments**

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the year ended June 30, 2014, which amounted to \$2,036,267 (5.204 percent for 2013-2014) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2014. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

**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>

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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

**Funding Policy**

The District currently finances benefits on a pay-as-you-go basis. The District contributes 100 percent of the cost of current year premiums for eligible retirees, spouses/registered domestic partners and eligible dependents as applicable. For the year ended June 30, 2014, the District expenditures amount to \$5,304,245. The District maintains a post-retirement benefits fund to designate resources for retiree health costs. At June 30, 2014, the post-retirement benefit fund's ending fund balance was \$14,068,628. 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.

**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		183,443
Adjustment to annual ARC		(151,493)
Annual OPEB cost (expense)		6,367,703
Contributions made		(5,304,245)
Increase in net OPEB obligation		1,063,458
Net OPEB obligation, Beginning of Year		2,822,198
Net OPEB obligation, End of Year	\$	3,885,656

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

For the Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
6/30/2012	\$ 5,533,217	102.3%	\$ 2,107,558
6/30/2013	\$ 6,359,619	88.8%	\$ 2,822,198
6/30/2014	\$ 6,367,703	83.3%	\$ 3,885,656

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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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 \$54,913,095. The covered payroll (annual payroll of active employees covered by the plan) was \$58,266,358, and the ratio of the UAAL to the covered payroll was 94.2%.

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

**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 \$14,068,628, 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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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, 2014**

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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 a result of no amounts from the redevelopment funds being used to make the yearly payments, the Successor Agency has made the payments as they have come due. The District reached a settlement concerning the debt with the City of Escondido which involved the application of redevelopment funds held by the City that belonged to the District, and the fact that the District would make future payments in the amount of \$2,773,190 in full settlement of the debt. As of June 30, 2014 the District has paid \$460,690 towards this debt and will pay the rest over the next 5 years. Payment will be made from monies received from the Successor Agency of which \$1,451,681 has already been accrued as of June 30, 2014.

**C. Purchase Commitments**

As of June 30, 2014, the District had commitments under various capital expenditure purchase agreements for construction and modernization projects totaling \$10,890,194. Projects will be funded through Capital Outlay and Proposition M Bond Funds.

**D. Litigation**

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

PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014

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NOTE 14 – RESTATEMENT OF NET POSITION

The following adjustments were made to restate the beginning net position:

	Primary Government
Net Position - Beginning, as Previously Reported	\$ 120,428,074
Restatement	(2,293,890)
Net Position - Beginning, as Restated	<u>\$ 118,134,184</u>

- \$2,293,890 decrease to beginning net position in order to reflect the elimination of amortization of debt issuance costs in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, a new statement effective for periods beginning after December 15, 2012.



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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 YEAR ENDED JUNE 30, 2014**

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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%	\$ 58,266,358	94.2%
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%

The District has set aside \$14,068,628 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 2012-13 and \$1.8 million for 2013-14 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.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

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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, 2014**

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The Palomar Community College District was established in January 1946, to provide higher education to the communities of North San Diego County. The first classes were held in September 1946. The Palomar campus 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 four outreach sites located in Mt. Carmel, Camp Pendleton, Fallbrook, and Pauma Valley.

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**GOVERNING BOARD**

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<b>MEMBER</b>	<b>OFFICE</b>	<b>TERM EXPIRES</b>
Paul P. McNamara, B.A.	President	2018
John J. Halcón, Ph.D.	Vice President	2016
Nancy Ann Hensch, B.A.	Secretary	2016
Mark R. Evilsizer, M.A.	Trustee	2018
Nancy C. Chadwick, M.S.W., M.P.A.	Trustee	2016

**DISTRICT ADMINISTRATORS**

Robert P. Deegan  
*Superintendent/President*

Berta Cuaron  
*Assistant Superintendent/Vice President, Instruction*

Adrian Gonzales  
*Assistant Superintendent/Vice President Student Services*

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

John Tortarolo  
*Assistant Superintendent/Vice President, Human Resource Services*

**PALOMAR COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER*	FEDERAL EXPENDITURES
<b>U.S. Department of Education</b>			
Direct			
Student Financial Assistance Cluster			
SEOG	84.007	*	\$ 378,599
Administrative Allowance	84.063	*	73,549
Pell Grant	84.063	*	16,865,861
Federal Work Study	84.033	*	188,516
Direct Loans	84.268	*	1,273,434
IASG	84.408	*	1,905
Total Student Financial Assistance Cluster			<u>18,781,864</u>
TRIO Cluster			
Educational Opportunity Centers	84.066	*	169,048
Student Support Services	84.042	*	293,706
Upward Bound	84.047	*	477,890
Talent Search	84.044	*	195,647
Total TRIO Cluster			<u>1,136,291</u>
Higher Education Act			
Veterans Education	84.12	*	18,634
Gear-Up	84.334A	*	2,208,520
Strengthening Institutions-Hispanic Serving Institutions-Title V	84.031S	*	1,190,241
Strengthening Institutions-Hispanic Serving Institutions-Title III	84.031C	*	700,754
Total direct form U.S. Department of Education			<u>4,118,149</u>
Pass Through the California Community College Chancellor's Office (CCCCO)			
Career and Technical Education (CTE)			
Perkins-Title II, Part C	84.048	13920	555,376
Perkins-Transitions	84.048	*	25,694
Total passed through from the CCCCCO			<u>581,070</u>
Total U.S. Department of Education			<u>24,617,374</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	*	50,148
Child Development Training Consortium	93.575	13967	28,259
Total U.S. Department of Health and Human Services			<u>78,407</u>
<b>U.S. Department of Agriculture</b>			
Pass Through the California Department of Education (CDE)			
Child Nutrition	10.555	3755	37,161
Total U.S. Department of Agriculture			<u>37,161</u>
<b>U.S. Department of Labor</b>			
Direct			
Small Business Resource Center	59.037	*	345
Total U.S. Department of Labor			<u>345</u>
<b>National Science Foundation</b>			
Direct			
Advancing Geospatial Technology Pathways at Palomar College	47.076	*	39,671
GeoTech Center: Innovation in Geospatial Information Science and Technology Education	47.076	*	23,412
Science, Technology, Engineering and Math Talent Expansion Program	47.076	*	58,878
Total National Science Foundation			<u>121,961</u>
<b>Total Federal Programs</b>			<u>\$ 24,855,248</u>

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

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2014**

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	Cash Received	Accounts Receivable	Accounts Payable	Total	Program Expenditures
Apprentice Allowance	\$ 645,236	\$ -	\$ -	\$ 645,236	\$ 645,236
Associate Nursing Degree Grant	118,608	22,592	-	141,200	141,200
Basic Skills	194,847	-	-	194,847	194,847
Board Financial Assistance Program	601,175	-	-	601,175	601,175
CalWORKS	176,169	-	7,065	169,104	169,104
Cooperative Agencies Resources for Education	72,301	-	689	71,612	71,612
Disable Student Programs & Services	816,442	-	-	816,442	816,442
Extended Opportunity Programs & Services	974,035	-	519	973,516	973,516
Faculty and Staff Diversity	8,624	-	-	8,624	8,624
Matriculation	1,356,350	-	-	1,356,350	1,356,350
Part-Time Faculty	421,311	-	-	421,311	421,311
Cal Grant	1,107,176	-	46,590	1,060,586	1,060,586
TTIP South	3,356,126	140,535	-	3,496,661	3,496,661
<b>Total State Programs</b>	<b>\$ 9,848,400</b>	<b>\$ 163,127</b>	<b>\$ 54,863</b>	<b>\$ 9,956,664</b>	<b>\$ 9,956,664</b>

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT ANNUAL**  
**(ACTUAL) ATTENDANCE**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2013 Only)			
1. Noncredit	100.57	-	100.57
2. Credit	1,104.70	-	1,104.70
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
1. Noncredit	15.33	-	15.33
2. Credit	521.89	-	521.89
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedures Courses			
(a) Weekly Census Contact Hours	11,393.63	-	11,393.63
(b) Daily Census Contact Hours	787.62	-	787.62
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	746.17	-	746.17
(b) Credit	760.93	-	760.93
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	2,755.54	-	2,755.54
(b) Daily Census Procedure Courses	615.99	-	615.99
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	18,802.37	-	18,802.37
Supplemental Information (subset of information above)			
In-service Training Courses (FTES)	129.46		
Basic Skills Courses and Immigrant Education			
1. Noncredit	803.53		
2. Credit	596.54		

See accompanying note to supplementary information.



**PALOMAR COMMUNITY COLLEGE DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FUND  
BALANCES  
FOR THE YEAR ENDED JUNE 30, 2014**

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The audit resulted in no adjustments to the fund balances reported on the June 30, 2014 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 YEAR ENDED JUNE 30, 2014**

	(Budget) 2015		2014		2013		2012	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
General Fund:								
Revenue								
Federal	\$ 7,274,331	5.69	\$ 6,288,864	5.12	\$ 7,069,838	6.22	\$ 5,930,561	5.22
State	44,070,433	34.50	43,534,300	35.43	36,023,795	31.69	39,873,589	35.11
Local	76,387,647	59.80	73,045,604	59.45	70,566,395	62.09	67,776,920	59.67
Total revenue	<u>127,732,411</u>	<u>100.00</u>	<u>122,868,768</u>	<u>100.00</u>	<u>113,660,028</u>	<u>100.00</u>	<u>113,581,070</u>	<u>100.00</u>
Expenditures								
Academic salaries	47,303,185	36.44	47,158,780	37.80	43,604,781	36.81	44,975,707	40.44
Classified salaries	30,261,114	23.31	29,876,406	23.95	29,729,306	25.10	29,506,197	24.72
Employee benefits	27,807,042	21.42	27,347,124	21.92	27,263,253	23.02	26,566,406	21.60
Supplies and materials	2,002,573	1.54	1,929,170	1.55	1,756,098	1.48	2,118,405	1.68
Other operating expenses and services	11,491,109	8.85	11,952,914	9.58	11,793,218	9.96	12,079,214	9.58
Capital outlay	4,267,998	3.29	1,032,882	0.83	1,595,012	1.35	2,084,803	1.31
Other uses (net)	6,689,289	5.15	5,472,213	4.39	2,713,448	2.29	435,936	0.67
Total expenditures	<u>129,822,310</u>	<u>100.00</u>	<u>124,769,489</u>	<u>100.00</u>	<u>118,455,116</u>	<u>100.00</u>	<u>117,766,668</u>	<u>100.00</u>
Change in fund balance	<u>\$ (2,089,899)</u>	<u>(1.61)</u>	<u>\$ (1,900,721)</u>	<u>(1.52)</u>	<u>\$ (4,795,088)</u>	<u>(3.84)</u>	<u>\$ (4,185,598)</u>	<u>(3.55)</u>
Ending fund balance	<u>\$ 14,346,784</u>	<u>11.50</u>	<u>\$ 16,436,672</u>	<u>13.17</u>	<u>\$ 18,337,393</u>	<u>14.70</u>	<u>\$ 23,132,481</u>	<u>19.64</u>
Full-time equivalent students	<u>18,802</u>		<u>18,802</u>		<u>19,051</u>		<u>19,368</u>	
Total long-term debt	<u>\$ 342,896,555</u>		<u>\$ 342,896,555</u>		<u>\$ 339,525,965</u>		<u>\$ 343,375,965</u>	

**Important Notes:**

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

Budget figures include adopted budget as of 9/9/2014.

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**  
**RECONCILIATION OF THE ECS 84362 (50 PERCENT LAW) CALCULATION**  
**FOR THE YEAR ENDED JUNE 30, 2014**

		Activity (ESCA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & 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	19,868,079	-	19,868,079	19,868,079	-	19,868,079
Other	1300	15,815,920	-	15,815,920	15,815,920	-	15,815,920
Total Instructional Salaries		35,683,999	-	35,683,999	35,683,999	-	35,683,999
Non-Instructional Salaries							
Contract or Regular	1200	-	-	-	8,449,302	-	8,449,302
Other	1400	-	-	-	1,303,249	-	1,303,249
Total Non-Instructional Salaries		-	-	-	9,752,551	-	9,752,551
Total Academic Salaries		35,683,999	-	35,683,999	45,436,550	-	45,436,550
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100	-	-	-	18,751,702	-	18,751,702
Other	2300	-	-	-	1,263,419	-	1,263,419
Total Non-Instructional Salaries		-	-	-	20,015,121	-	20,015,121
Instructional Aides							
Regular Status	2200	1,446,385	-	1,446,385	1,446,385	-	1,446,385
Other	2400	494,711	-	494,711	494,711	-	494,711
Total Instructional Aides		1,941,096	-	1,941,096	1,941,096	-	1,941,096
Total Classified Salaries		1,941,096	-	1,941,096	21,956,217	-	21,956,217
Employee Benefits	3000	10,462,222	-	10,462,222	23,883,731	-	23,883,731
Supplies and Materials	4000	-	-	-	767,305	-	767,305
Other Operating Expenses	5000	-	-	-	7,705,925	-	7,705,925
Equipment Replacement	6420	-	-	-	10,133	-	10,133
Total Expenditures Prior to Exclusions		48,087,317	-	48,087,317	99,759,861	-	99,759,861
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	-	-	-	-	-	-
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	296,741	-	296,741
Non-instructional Staff-Retirees' Benefits and Retirement Incentives	6740	-	-	-	-	-	-
Object to Exclude							
Rents and Leases	5060	-	-	-	483,068	-	483,068
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials							
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	-	-	-	3,005,786	-	3,005,786
Capital Outlay							
Library Books	6300	-	-	-	-	-	-
Equipment							
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	3,785,595	-	3,785,595
Total for ECS 84362, 50% Law		\$ 48,087,317	\$ -	\$48,087,317	\$ 95,974,266	\$ -	\$ 95,974,266
Percent of CEE (Instructional Salary Cost/Total CEE)		50.10%		50.10%	100.00%		100.00%
50% of Current Expense of Education					\$ 47,987,133		\$ 47,987,133

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
DETAILS OF THE EDUCATION PROTECTION ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2014**

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<b>EPA Revenue</b>	\$ 13,539,851
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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>(Obj 1000-3000)</b>	<b>(Obj 4000-5000)</b>	<b>(Obj 6000)</b>	<b>Total</b>
Instructional Activities	0100-5900	\$ 13,539,851	\$ -	\$ -	\$ 13,539,851
Total		\$ 13,539,851	\$ -	\$ -	\$ 13,539,851

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

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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, 2014 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 business-type activity and fiduciary funds of Palomar Community College District, as of and for the year ended June 30, 2014, 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 November 28, 2014.

**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

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

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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.



San Diego, California  
November 28, 2014



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

**133**

**Independent Auditors' Report**

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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, 2014. 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.

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, 2014.

### **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.



San Diego, California  
November 28, 2014

## REPORT ON STATE COMPLIANCE

### Independent Auditors' Report

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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) 2013-14*, issued by the California Community Colleges Chancellor's Office for the year ended June 30, 2014.

### ***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) 2013-14*, 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, 2014.

### ***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 430 – Scheduled Maintenance Program  
Section 431 - Gann Limit Calculation  
Section 435 - Open Enrollment  
Section 438 - Student Fees – Health Fees and Use of Health Fee Funds  
Section 439 – Proposition 39 Clean Energy  
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) 2013-14*. Accordingly, this report is not suitable for any other purpose.



San Diego, California  
November 28, 2014

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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, 2014**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
84.007, 84.033, 84.063, 84.268, 84.408	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 745,657</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unmodified</u>

**PALOMAR COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO THE FINANCIAL  
STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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*There were no findings or questioned costs related to the financial statements during 2013-14.*

**PALOMAR COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

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*There were no findings or questioned costs related to federal awards during 2013-14.*



**PALOMAR COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

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*There were no findings or questioned costs related to state awards during 2013-14.*

PALOMAR COMMUNITY COLLEGE DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014

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*There were no findings or questioned costs in the 2012-13 fiscal year.*