

PALOMAR COMMUNITY COLLEGE DISTRICT

**PROPOSITION 39 GENERAL OBLIGATION BONDS
PROP M BOND CONSTRUCTION FUND –
PROPOSITION M BOND PROGRAM
FINANCIAL AUDIT**

For the Fourteen Months Ended June 30, 2008

PALOMAR COMMUNITY COLLEGE DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
PROP M BOND CONSTRUCTION FUND –
PROPOSITION M BOND PROGRAM
FINANCIAL AUDIT

June 30, 2008

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Balance Sheet – Prop M Bond Construction Fund	3
Statement of Revenues, Expenditures and Change in Fund Balance – Prop M Bond Construction Fund	4
Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual – Prop M Bond Construction Fund	5
Notes to Financial Statements	6-8
Reconciliation of Annual Financial and Budget Report with Audited Fund Balances	9
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	10-11
Schedule of Findings and Questioned Costs.....	12

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Palomar Community College District, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated December 9, 2008. We have also audited the accompanying Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Prop M Bond Construction Fund of the Palomar Community College District as of and for the fourteen months ended June 30, 2008. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit of the Prop M Bond Construction Fund in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 for the Prop M Bond Construction Fund are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Prop M Bond Construction Fund financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008 on our consideration of the Palomar Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations for the Prop M Bond Construction Fund of the Palomar Community College District as of and for the fourteen months ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 9, 2008

PALOMAR COMMUNITY COLLEGE DISTRICT

BALANCE SHEET

PROP M BOND CONSTRUCTION FUND

PROPOSITION M BOND PROGRAM (SERIES A)

June 30, 2008

ASSETS

Cash in County Treasury	\$ 120,345,770
Interest Receivable	1,042,169
Due From District	<u>21,000</u>
TOTAL ASSETS	<u>\$ 121,408,939</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 3,471,499
Due To District	38,819
Compensated Absences Payable	<u>5,107</u>
TOTAL LIABILITIES	<u>3,515,425</u>

FUND BALANCE

Designated for Master Plan 2022 Projects	<u>117,893,514</u>
TOTAL FUND BALANCE	<u>117,893,514</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 121,408,939</u>
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See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE

PROP M BOND CONSTRUCTION FUND -

PROPOSITION M BOND PROGRAM (SERIES A)

For the Fourteen Months Ended June 30, 2008

REVENUES

Investment Income \$ 7,228,454

TOTAL REVENUES 7,228,454

EXPENDITURES

Salaries 78,235

Benefits 39,943

Supplies and Materials 2,693

Other Expenses and Services 1,984,354

Capital Outlay 47,229,715

TOTAL EXPENDITURES 49,334,940

Deficiency of Revenues over Expenditures (42,106,486)

OTHER FINANCING SOURCES

Proceeds from the Sale of Bonds 160,000,000

TOTAL OTHER FINANCING SOURCES 160,000,000

Net Change in Fund Balance 117,893,514

Fund Balance at Beginning of Year -

Fund Balance at End of Year \$ 117,893,514

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE

BUDGET AND ACTUAL - PROP M BOND CONSTRUCTION FUND -

PROPOSITION M BOND PROGRAM (SERIES A)

For the Fourteen Months Ended June 30, 2008

	<u>Budget *</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Investment Income	\$ 7,200,000	\$ 7,228,454	\$ 28,454
TOTAL REVENUES	<u>7,200,000</u>	<u>7,228,454</u>	<u>28,454</u>
EXPENDITURES			
Salaries	79,000	78,235	765
Benefits	40,000	39,943	57
Supplies and Materials	5,000	2,693	2,307
Other Expenses and Services	2,000,000	1,984,354	15,646
Capital Outlay	<u>157,876,000</u>	<u>47,229,715</u>	<u>110,646,285</u>
TOTAL EXPENDITURES	<u>160,000,000</u>	<u>49,334,940</u>	<u>110,665,060</u>
Deficiency of Revenues over Expenditures	<u>(152,800,000)</u>	<u>(42,106,486)</u>	<u>110,693,514</u>
OTHER FINANCING SOURCES			
Proceeds from the Sale of Bonds	<u>160,000,000</u>	<u>160,000,000</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>160,000,000</u>	<u>160,000,000</u>	<u>-</u>
Net Changes in Fund Balance	<u>\$ 7,200,000</u>	117,893,514	<u>\$ 110,693,514</u>
Fund Balance at Beginning of Year		<u>-</u>	
Fund Balance at End of Year		<u>\$ 117,893,514</u>	

* The budget for revenues reflects estimated amounts to be received in the current year. The budget for expenditures reflects amounts available for current and subsequent years' expenditures and does not necessarily coincide with actual planned expenditures in the current year.

See the accompanying notes to the financial statements.

**PALOMAR COMMUNITY COLLEGE DISTRICT
PROP M BOND CONSTRUCTION FUND
PROPOSITION M BOND PROGRAM**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants.

FUND STRUCTURE

The Statement of Revenues, Expenditures and Change in Fund Balance is a statement of financial activities of the Prop M Bond Construction Fund related to the current reporting period. Expenditures frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, this statement does not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

BASIS OF ACCOUNTING

The Prop M Bond Construction Fund of the Palomar Community College District is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Cash in the County Treasury is recorded at fair value in accordance with the requirements of GASB Statement No. 31.

BUDGET

The Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual includes a column titled “Budget”. The amounts in this column represent the budget adopted by the Board and all amendments throughout the year.

**PALOMAR COMMUNITY COLLEGE DISTRICT
PROP M BOND CONSTRUCTION FUND
PROPOSITION M BOND PROGRAM**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

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

CAPITAL ASSETS AND LONG-TERM DEBT

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Prop M Bond Construction Fund are determined by its measurement focus. The Fund is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Prop M Bond Construction Fund are accounted for in the basic financial statements of the Palomar Community College District.

NOTE 2 – DEPOSITS AND INVESTMENTS:

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 education investment pool. These pooled funds are carried at fair value. The fair market value of the Prop M Bond Construction Fund’s deposits in this pool as of June 30, 2008, as provided by the pool sponsor, was \$120,345,770. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

NOTE 3 – PURCHASE COMMITMENTS:

As of June 30, 2008, the District was committed under various capital expenditure purchase agreements for various projects totaling approximately \$3,180,000 to be funded from bond proceeds.

NOTE 4 – GENERAL OBLIGATION BONDS:

On November 7, 2006, the District voters authorized the issuance and sale of general obligation bonds totaling \$694,000,000. Proceeds from the sale of the bonds will be used to finance certain projects of the District and to pay all necessary legal, financial, engineering and contingent costs. On May 2, 2007, the District issued General Obligation Bonds, Election of 2006, Series A of \$160,000,000 of current interest bonds. Interest ranges from 4.25% to 5.00% payable semiannually on May 1 and November 1.

**PALOMAR COMMUNITY COLLEGE DISTRICT
PROP M BOND CONSTRUCTION FUND
PROPOSITION M BOND PROGRAM**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 4 – GENERAL OBLIGATION BONDS: (continued)

The outstanding bonded debt for Palomar Community College District at June 30, 2008 is:

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2008</u>
2006A	5/2/2007	4.25 % - 5.0%	2032	\$ 160,000,000	\$ 160,000,000	\$	\$ 2,000,000	\$ 158,000,000
				<u>\$ 160,000,000</u>	<u>\$ 160,000,000</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>158,000,000</u>
						Bond Premium*		<u>5,850,886</u>
						Total Bonds Payable		<u>\$ 163,850,886</u>

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series A bonds included a premium of \$6,094,673. This amount is amortized using the straight-line method. Amortization was recognized during the 2007-08 year in the amount of \$243,787 on the District's basic financial statements. The unamortized balance at June 30, 2008 is \$5,850,886.

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2008, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 6,250,000	\$ 7,482,588	\$ 13,732,588
2010	1,905,000	7,201,338	9,106,338
2011	2,315,000	7,120,375	9,435,375
2012	2,455,000	7,027,775	9,482,775
2013	2,745,000	6,929,575	9,674,575
2014-2018	18,965,000	32,385,700	51,350,700
2019-2023	30,085,000	26,614,500	56,699,500
2024-2028	44,515,000	18,101,225	62,616,225
2029-2032	<u>48,765,000</u>	<u>5,988,088</u>	<u>54,753,088</u>
	<u>\$ 158,000,000</u>	<u>\$ 118,851,164</u>	<u>\$ 276,851,164</u>

NOTE 5 – SUBSEQUENT EVENT – EASEMENT:

In October 2008, the District purchased 86.33 acres of easement rights for \$3,172,325 paid with Proposition M Bond funds. This was to satisfy mitigation impacts of an Environmental Impact Report related to construction at the North Educational Center. This parcel will be for permanent conservation of botanical wildlife.

**PALOMAR COMMUNITY COLLEGE DISTRICT
PROP M BOND CONSTRUCTION FUND
PROPOSITION M BOND PROGRAM**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FUND BALANCES
For the Fourteen Months Ended June 30, 2008**

	Prop M Bond Construction <u>Fund</u>
June 30, 2008 Annual Financial and Budget Report Fund Balance (CCFS-311)	\$117,485,726
Adjustments and Reclassifications:	
Understatement of unrealized gain – Cash with County	<u>407,788</u>
June 30, 2008 Audited Fund Balance	<u>\$117,893,514</u>

SUPPLEMENTARY INFORMATION

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

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

We have audited the financial statements of Prop M Bond Construction Fund of the Palomar Community College District as of and for the fourteen months ended June 30, 2008, and have issued our report thereon dated December 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palomar Community College District's internal control over the Prop M Bond Construction Fund financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the fund financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's Prop M Bond Construction Fund financial statements that are more than inconsequential will not be prevented or detected by the District's internal control.

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

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Prop M Bond Construction Fund financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over Prop M Bond Construction Fund financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify two significant deficiencies in internal control over financial reporting that are included in the District's audit report as items 08-2 and 08-3 which may have an impact on the internal controls over the Prop M Bond Construction Fund – Proposition M Bond Program financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Prop M Bond Construction Fund of the 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, non-compliance with which could have a direct and material effect on the determination of the Prop M Bond Construction Fund 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 non-compliance or other matters related to the Prop M Bond Construction Fund that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, the Independent Citizens' Oversight Committee, and management and is not intended to be and should not be used by anyone other than these specified parties.



VICENTI, LLOYD & STUTZMAN LLP

December 9, 2008

**PALOMAR COMMUNITY COLLEGE DISTRICT
PROP M BOND CONSTRUCTION FUND
PROPOSITION M BOND PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2008**

There were no findings and questioned costs related to the financial audit of the Prop M Bond Construction Fund for the fourteen months ended June 30, 2008.