PALOMAR COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

PALOMAR COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Palomar Community College District
San Marcos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Palomar Community College District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 District'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 District'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of an Error

As discussed in the notes to the financial statements, the accompanying financial statements reflect certain changes as a result of a correction to the beginning Other Postemployment Benefit Obligation, Bonds Payable Obligation, Capital Assets, and Cash with Fiscal Agent accounts for the year ended June 30, 2015. These changes require a restatement of the beginning net position of the District as discussed in Note 15. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 15 and to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 21, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 69, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 70, and the Schedule of District Contributions on page 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, 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 accompanying supplementary information, including the Schedule of Expenditures of Federal Awards, 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

San Diego, California
December 18, 2015

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The Management's Discussion and Analysis (MD&A) of Palomar Community College District of San Marcos, California (d/b/a Palomar College, the District, or the College) provides an overview of the District's financial activities and results of operations for the years ended June 30, 2015 and 2014. The District's administration prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Readers of the financial statements, including the MD&A, are encouraged to review the notes to the basic financial statements to enhance their understanding of the District's financial performance. Responsibility for the completeness and fairness of this information rests with the District's administration.

The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, has recommended that all State community college districts follow the Business-Type Activity (BTA) model for financial statement reporting purposes. The District is following the BTA model, which presents the financial statements using the full accrual basis of accounting.

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

- Management's Discussion and Analysis
- Basic financial statements including the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows
- Notes to Financial Statements

THE COLLEGE

The California community colleges is the largest system of higher education in the nation composed of 72 districts and 113 colleges serving 2.1 million students per year. Community colleges supply certificate and degree programs, basic skills, and preparation for transfer to four-year institutions.

Palomar Community College District is a comprehensive single-college district and is the largest single community college district in San Diego County. The main campus is situated on 200 acres located in the City of San Marcos, about 30 miles from the City of San Diego. Other than the main campus, the District operates an education center in the City of Escondido, and four outreach sites throughout the northern communities of San Diego County: Camp Pendleton, Fallbrook, Mt. Carmel, and Pauma Valley. In addition, the College has instructional sites at the Public Safety Training Center in San Marcos, San Diego Carpenters Training Center, San Diego Electrical Training Center, San Diego Sheet and Metal Training Center, and Riverside and San Bernardino Joint Electrical Apprenticeship Training Center. In June 2010, the District purchased the South Education Center in the community of Rancho Bernardo, a future site to serve the southern portion of the District's geographic boundary.

Palomar College has been an important provider of higher education and training to the 2,555 square miles of the District's service area. The District is a public, two-year community college serving approximately 26,000 students per semester. Full-Time Equivalent Student (FTES) for 2014-2015 was 19,629. Approximately 31 percent of the students are enrolled full-time, while about 62 percent are enrolled part-time in credit courses, and 7 percent are enrolled in noncredit courses. About 65 percent of our students are 24 and under, while 35 percent are 25 and older. These students take a variety of courses and programs offered through face-to-face, distance education, or in a hybrid format that lead to associate degrees, certificates of achievement, and/or transfer to four-year institutions.

The College is organized into five instructional divisions: 1) Arts, Media, Business and Computer Science; 2) Career, Technical, and Extended Education; 3) Languages and Literature; 4) Mathematics and the Natural and Health Sciences; and 5) Social and Behavioral Sciences. Within those five divisions, the College offers 162 associate degrees and 155 certificates of achievement programs that meet the California Education Code of Regulations, Title 5 curriculum requirements. It also provides noncredit community development and personal entitlement courses for lifelong learning.

A community-elected five-member Board governs Palomar Community College District. Trustees are elected for four-year staggered terms. The Governing Board also seats an elected student trustee as a non-voting member. The Governing Board establishes policies, assures fiscal stability, and monitors the institutional performance and educational quality consistent with the mission and goals of the College. The Board appoints the Superintendent/President of the College, and all administrators are selected using appropriate State Chancellor's Office guidelines and District policies.

The College's mission statement, consisting of the vision, mission, and values, was last revised in 2013 and adopted by the Board in January 2014. Palomar College's vision is "***Learning for Success***". The District's mission is "*to provide an engaging teaching and learning environment for students of diverse origins, experiences, needs, abilities, and goals. As a comprehensive community college, we support and encourage our students who are pursuing transfer-readiness, general education, basic skills, career and technical training, aesthetic and cultural enrichment, and lifelong education*". Palomar College is dedicated to empowering students to succeed and cultivating an appreciation of learning. In March 2010, the Strategic Planning Council and Budget Committee formulated and Integrated Planning, Evaluation, and Resource Allocation Decision-Making Model (IPM) and a Resource Allocation Model (RAM). All fiscal and budget decisions have been made with the College's core mission in mind.

Palomar College is accredited through the Accrediting Commission for Community and Junior Colleges (ACCJC) and the Western Association of Schools and Colleges. The College has transfer agreements with the California State University and University of California systems, and its high-level coursework in transferable classes fully prepares students for success at four-year colleges and universities. In June 2015, the ACCJC reaffirmed Palomar College's accreditation, recognizing how well the College is achieving its stated purpose and meeting the Commission standards.

In August 2003, Palomar Community College District completed the comprehensive Educational and Facilities Master Plan 2022 containing the identified needs of the District: construction of new instructional and support buildings, modernization of existing buildings, infrastructure upgrades, and the development of two educational centers. In the November 2006 General Election, voters approved Proposition M, a $694 million educational facilities improvement bond. The total proposition is funded through the sale of several series of bonds with the first three series sold in May 2007 (Series A), November 2010 (Series B), and April 2015 (Series C), respectively. An Independent Citizens' Oversight Committee (ICOC) reviews the expenditure of funds to ensure that bond revenues are expended only for projects to be conducted in completion of Master Plan 2022. The College leverages the bond funds with State capital construction program funds to implement new and renovation construction projects.

The District's primary funding source is the "State Apportionment Funding" received from the State of California through the State Chancellor's Office. This funding represents 90 percent of the total revenue in the District's operating fund. The Apportionment consists of three primary components: State apportionment, local property taxes, and student enrollment fees, which were $46 per unit in the year ended June 30, 2015. The primary basis of this apportionment is the calculation of FTES. In October 2015, a revised CCFS-320 Apportionment Attendance Report was submitted to the Chancellor's Office. The total apportionment eligible FTES reported was 19,629 for the fiscal year 2014-2015. The Chancellor's Office calculates the Base Revenue three times each year and retroactively for one fiscal year. Each district does not know the final recalculation until as late as the First Principal Apportionment (P1), which is usually released in February following the end of the fiscal year.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2014-2015

- Using the authority provided by the voters through Proposition 25 in November 2010, the legislature passed the Budget Act (SB 852) in June 2014. Passage of the fiscal year 2014-2015 State Budget Act provided 2.75 percent for enrollment growth/restoration, allowing the District to earn up to $2.5 million the following year, $3.75 million in Student Success and Equity funding, $787 thousand or 0.85 percent for a Cost of Living Allowance (COLA), $1.1 million for Disabled Student Programs and Services (DSPS), and a one-time increase of $2.5 million for physical plant and instructional equipment.

- Under AB 1469, the CalSTRS employer contribution rate for fiscal year 2014-2015 was 8.88 percent, an increase of 0.63 percent over fiscal year 2013-2014.

- The District is funding its Other Postemployment Benefit (OPEB) obligation through its Annual Required Contribution (ARC) in accordance with GASB Statement No. 45. The District uses an Actuary to determine its funding. This represents the cost of providing postemployment health and dental benefits to eligible employees through a closed single employer defined benefit plan.

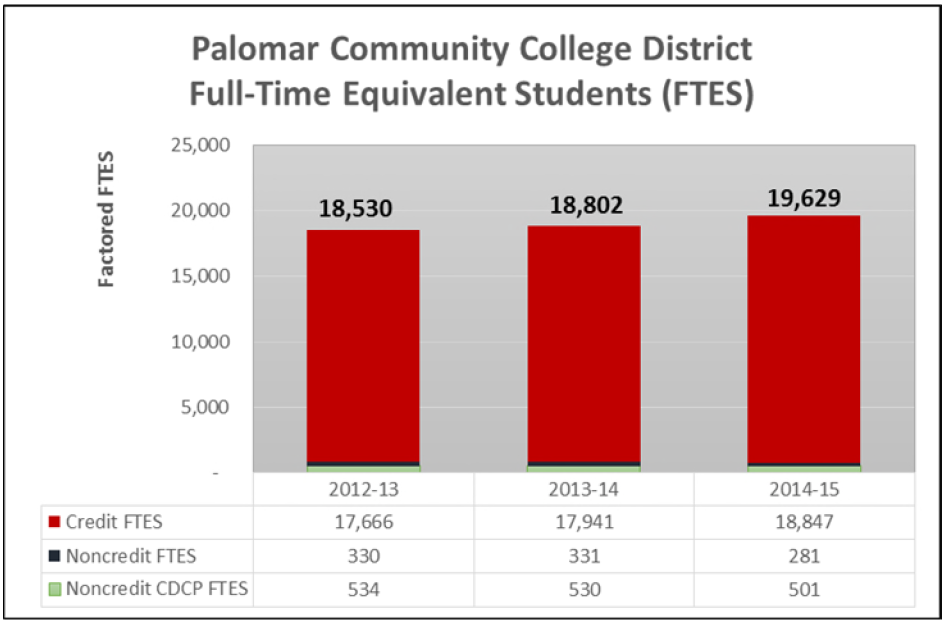
- Mandated block grant continued at $28 per FTES.

- The District met or exceeded all Federal and State mandate requirements including the 50% Law and Faculty Obligation Numbers (FON).

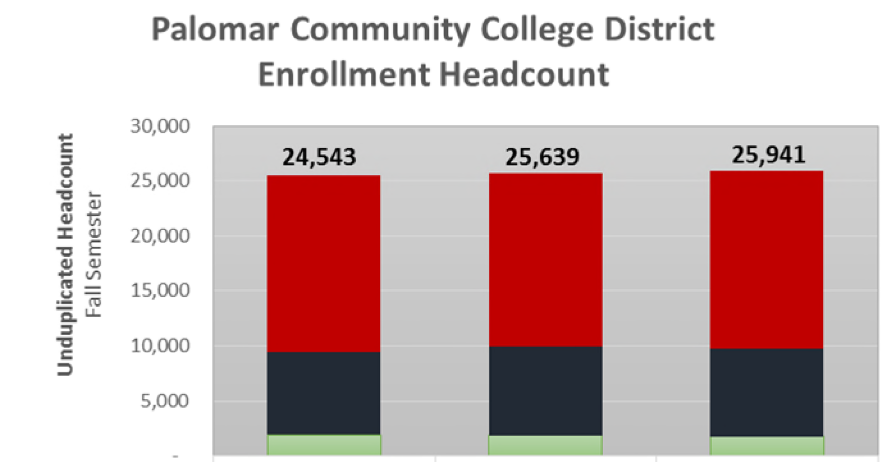
- The District met all of its repayment obligations for Proposition M General Obligation Bonds.

- The District has consistently maintained a five percent Governing Board reserve level for contingencies and expansion.

ENROLLMENT TRENDS



During fiscal year 2014-2015, total FTES increased by approximately 827 or 4.4 percent from the previous year. While the credit and noncredit FTES, along with a per college and per center allocation, are the basis of State apportionment, State-established growth caps provide a ceiling on the level of FTES funding possible. Fiscal year 2014-2015 total FTES is reported at 19,629; however, the final FTES will not be known at the district level until February 2016, when all the final FTES have been reported by the 72 districts and calculated system-wide within the constraints of the State approved budget.



	2012-13	2013-14	2014-15
Part-Time Credit	16,050	15,719	16,152
Full-Time Credit	7,518	8,083	8,040
Part-Time Noncredit	1,885	1,837	1,749

OVERVIEW OF THE FINANCIAL STATEMENTS

Palomar Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These entity-wide financial statements focus on the District as a whole, whereby all of the District's overall financial activities and results of operations are consolidated into one total rather than the traditional presentation of individual fund groups.

Effective for the year ended June 30, 2015, the District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These standards introduce and define *deferred outflows of resources* and *deferred inflows of resources* as elements of the annual financial report and incorporate these elements in the computation of the District's net position, previously referred to as net assets. These elements represent the consumption (deferred outflow) or acquisition (deferred inflow) of resources by the District that are applicable to a future reporting period, but do not require any further exchange of goods or services. As prescribed by GASB Statements No. 63 and No. 65, certain prior period amounts have been reclassified to conform to the current year's presentation.

Effective for the year ended June 30, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These new statements require that the District reflect its proportionate share of pension liabilities in the financial statements. Previously, these pension liabilities were only reflected in the State of California's financial statements. As a result, most K-14 districts will show a negative net position on their financial statements.

Included in this discussion is an analysis of the District's Statement of Net Position, which presents the assets, liabilities, and net position of the District and, when applicable, deferred outflows of resources and deferred inflows of resources as of the end of the fiscal years June 30, 2015 and 2014. The Statement of Revenues, Expenses, and Changes in Net Position reflects revenues and expenses recognized during the fiscal year. Further, the Change in Cash Position provides information about cash receipts and cash payments during the fiscal year.

STATEMENT OF NET POSITION

The Statement of Net Position presents all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District as a whole. It 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 provides a snapshot of the District's overall financial condition as of June 30, 2015.

Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation. Deferred outflows and deferred inflows of resources are recognized through the consumption or acquisition of resources by the District that is applicable to a future reporting period.

Assets

The District's assets consist of cash, investments, net accounts receivable, capital assets, and other assets. These assets are resources with present capability to enable the College to provide services and continue its operations.

Cash and investments increased $227.6 million from $121.1 million to $348.8 million primarily due to the issuance of $220 million Proposition M - Series C bonds in April 2015 and the aggregate increases in the Unrestricted and Restricted General Funds. Partially offsetting these amounts was the spending of Series A and Series B bond proceeds, issued in 2007 and 2010, respectively, consistent with their restricted purpose. Palomar leverages the Proposition M dollars through energy efficiency, conservation, and sustainability. Further, the District has participated in energy design and savings programs. The Statement of Cash Flows included in these financial statements provides greater detail of the sources and uses of District's cash during fiscal year 2014-2015.

Accounts receivables consist mainly of receivables from Federal and State sources for grant and entitlement programs and local sources for all other purposes.

Deferred Outflows of Resources

Deferred outflows of resources include amounts associated with the refunding of debt and pension contributions made during the fiscal year that are removed from expenses, compensated absences, and load banking that are not generally due and payable in the current period.

Liabilities

The liabilities of the District consist of current liabilities and long-term obligations. The increase in the liabilities was related to increased construction activities in the Proposition M Bond building program, an additional liability for the Other Postemployment Benefits (OPEB) obligation, and current portion of long-term debt and long-term liabilities for the Proposition M bonds that are not due and payable in the current period.

Deferred Inflows of Resources

Deferred inflows of resources represent pension costs, resulting from the difference between projected and actual earnings on pension plan investments. This amount is deferred and amortized over five years.

Net Position

The total net position is one indicator of the District's financial health. 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 change in net position reveals whether the overall financial condition has improved or worsened during the year.

Net position represents residual District assets and deferred outflows after liabilities and deferred inflows are deducted. The net position is categorized between net investment in capital assets, restricted net assets, and unrestricted net assets. The net investment in capital assets represents the equity amount in property, plant, and equipment owned by the District. Restricted net position represents funds that are limited in terms of the purpose and time for which the funds can be spent. It is subject to externally imposed restrictions governing their use. Unrestricted net position is defined by GASB Statements No. 34 and No. 35 as those assets that do not have external legal restrictions against them, including any amounts designated by the Governing Board.

Due to the first-year implementation of GASB Statements No. 68 and No. 71, the District's net position decreased $14.1 million from a deficit $10.6 million to a deficit $24.7 million. GASB Statements No. 68 and No. 71 require all governmental agencies to report their proportional shares of net pension liabilities, resulting to a negative net position for the District. Over time, increases or decreases in net position will point out the improvement or erosion of the District's financial health when considered with nonfinancial facts, such as enrollment levels, State changes in funding, facility changes, etc.

STATEMENT OF NET POSITION FOR FISCAL YEARS 2015 AND 2014

A summarized comparison of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2015 and 2014, is presented below:

THE DISTRICT AS A WHOLE

Net Position

(Amounts in thousands)

	2015	2014 (as restated)	Change
ASSETS			
Current Assets			
Cash and investments	$ 348,784	$ 121,146	$ 227,638
Accounts receivable (net)	7,801	11,535	(3,734)
Other current assets	187	396	(209)
Total Current Assets	356,772	133,077	223,695
Capital Assets (net)	340,792	320,656	20,136
Total Assets	697,564	453,733	243,831
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	13,271	-	13,271
Current year pension contribution	7,122	6,742	380
Net change in proportionate share of net pension obligation	68	-	68
Total Deferred Outflows	$ 20,461	$ 6,742	$ 13,719
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	$ 20,294	$ 13,407	$ 6,887
Unearned revenue	3,550	1,165	2,385
Current portion of long-term debt	5,839	7,286	(1,447)
Total Current Liabilities	29,683	21,858	7,825
Long-Term Obligations	689,267	449,181	240,086
Total Liabilities	718,950	471,039	247,911
DEFERRED INFLOWS OF RESOURCES			
Difference between projected and actual earnings on pension plan investments	23,833	-	23,833
NET POSITION			
Net investment in capital assets	2,241	85,661	(83,420)
Restricted	43,895	20,700	23,195
Unrestricted	(70,894)	(116,925)	46,031
Total Net Position	$ (24,758)	$ (10,564)	$ (14,194)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents the District's financial results of operations for the fiscal year. The revenues and expenses are categorized as operating and nonoperating, and expenses are reported by natural classification. The purpose of this statement is to report the operating and nonoperating expenses incurred, whether paid or not, by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District.

Operating Revenues and Expenses

Generally, operating revenues are earned for providing educational and programmatic services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire goods or provide services in return for the operating revenues used to fulfill the mission of the District.

The operating revenues are generated by the resident enrollment fees, non-resident, and out-of-State tuition paid by students, including fees such as health fees, parking fees, and other related fees. The increase in amount is directly related to the increase in FTES. The District's reported FTES in fiscal year 2014-2015 increased 827, from 18,802 to 19,629.

The primary operating expenses of the District are for the salaries and benefits of academic, classified, and administrative personnel, comprising of $121.3 million or 66.7 percent of the total operating expenses from a District-wide full accrual perspective. This amount includes the activity from all District funds. These costs increased $6.9 million from the previous fiscal year, from $114.4 million to $121.3 million. The net increase is primarily due to the increases in the number of faculty, classified, and management positions, the cost of health and benefits for covered employees, and the employer share of the State Teachers' Retirement System (CalSTRS) contributions.

Given all community colleges' dependency on revenues such as State appropriations, property taxes, sales taxes and other revenues, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses exceed operating revenues, resulting in a loss on operations.

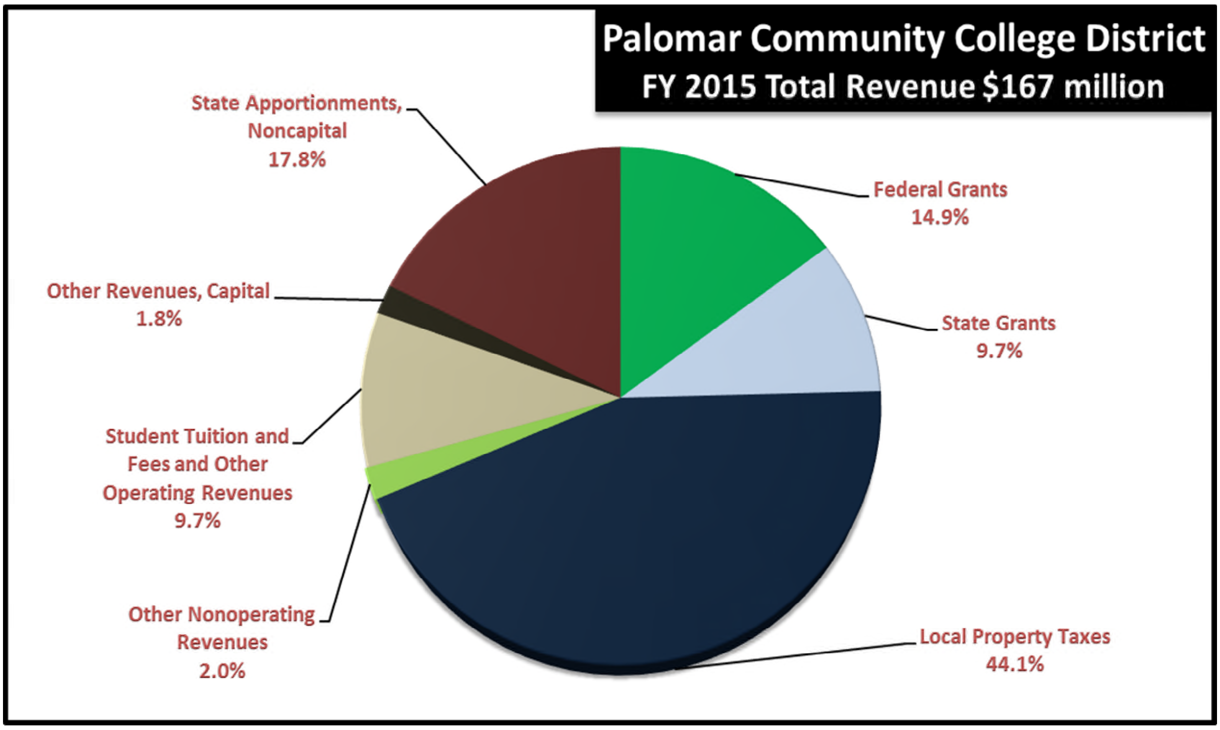
Nonoperating Revenues and Other Revenues

Nonoperating revenues and other State and local revenues are those received or pledged for which goods and services are not provided to the entity providing the revenues. Total nonoperating revenues or expenses are an integral component in determining the increases or decreases in net position.

Total Revenue

Total operating, nonoperating, and other revenues increased $20.9 million, a 14.6 percent increase from $143.5 million to $164.5 million mainly due to increases in Federal and State categorical programs, our share of enrollment growth/restoration funds, and COLA. Grants and contracts are received from Federal, State, and local sources and are used for instructional and student support activities. Property taxes received through the Auditor-Controller's Office for San Diego County also increased by $5.9 million or 8.75 percent; however, the amount received for property taxes is deducted from the total State general apportionment amount calculated by the State for the District.

The following chart shows the sources of revenue to the District. The largest sources are Property Taxes (44.1 percent), Federal and State Grants – Noncapital (combined 24.6 percent) and State Apportionment, Noncapital (17.8 percent), which is derived from the State's funding formula for community colleges.



As presented in the Statement of Revenues, Expenses, and Changes in Net Position, total revenues were $167.6 million while total expenditures were $181.8 million. The cumulative effect of the GASB Statements No. 68 and No. 71 change in accounting principles resulted in a $14.2 million decrease to the District's net position as of June 30, 2015.

A summarized comparison of the District's revenues, expenses, and changes in net position for the years ended June 30, 2015 and 2014, is presented below:

Operating Results for Fiscal Years 2015 and 2014

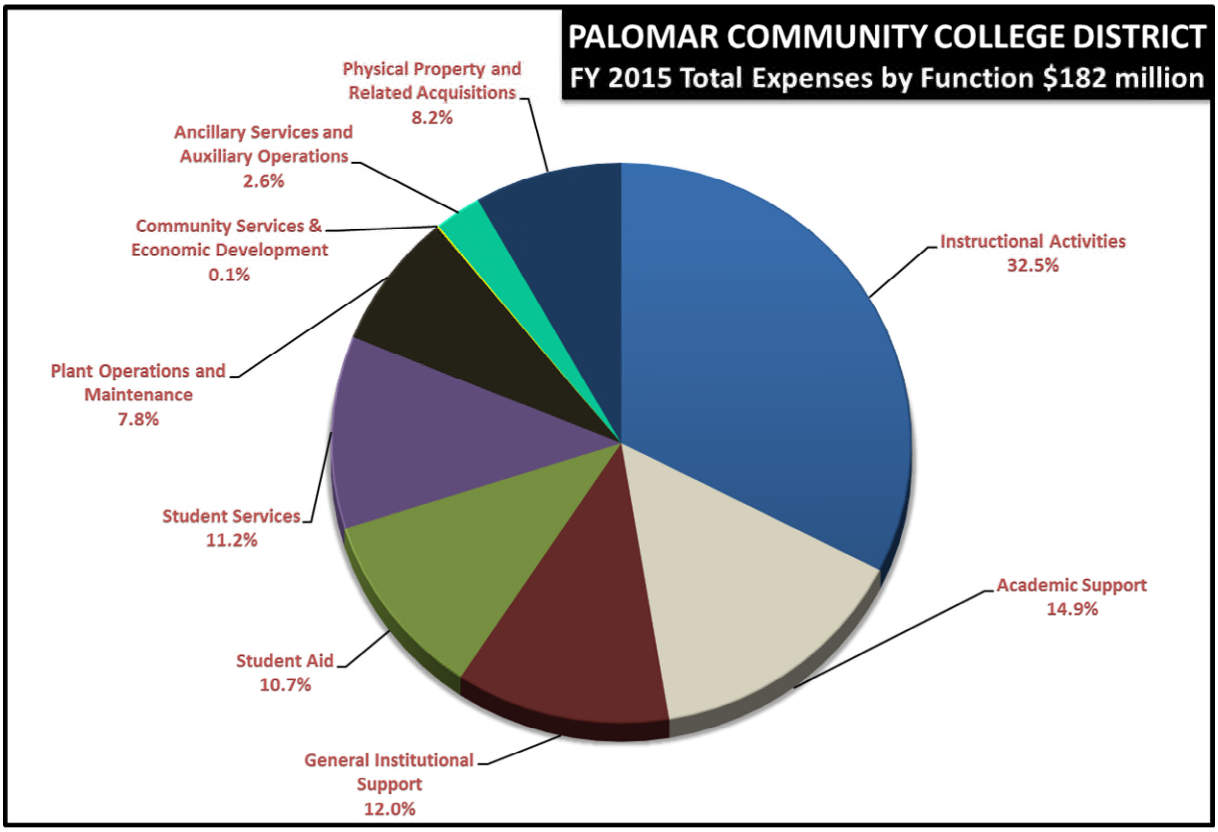
(Amounts in thousands)

	2015	2014	Change
Operating Revenues			
Tuition and fees, net	$ 16,061	$ 15,380	$ 681
Auxiliary sales and charges	93	-	93
Total Operating Revenues	16,154	15,380	774
Operating Expenses			
Salaries and benefits	121,286	114,425	6,861
Supplies, maintenance, and equipment	35,302	30,590	4,712
Student financial aid	19,508	19,633	(125)
Depreciation	5,681	7,388	(1,707)
Total Operating Expenses	181,777	172,036	9,741
Loss on Operations	(165,623)	(156,656)	(8,967)
Nonoperating Revenues			
State apportionments, noncapital	29,780	17,595	12,185
Property taxes	73,820	67,879	5,941
Grants and contracts, noncapital	41,163	36,626	4,537
State taxes and other revenues	5,146	19,765	(14,619)
Investment income	779	994	(215)
Other nonoperating revenues (expenses), net	(2,348)	(14,728)	12,380
Total Nonoperating Revenue	148,340	128,131	20,209
Other Revenues			
State and local capital income	3,089	2,816	273
Net Change in Net Position	$ (14,194)	$ (25,709)	$ 11,515

The following represents the fiscal year 2015 operating expenses by function:

	Salaries	Employee Benefits	Supplies, Material, and Other Expenses and Services	Equipment, Maintenance, and Repairs	Student Financial Aid	Depreciation	Total
Instructional activities	$38,959	$20,618	$ 2,266	$ 1,655	$ -	$ -	$ 63,498
Academic support	14,264	5,294	4,990	1,287	-	-	25,835
Student services	12,231	4,716	2,150	108	-	-	19,205
Plant operations and maintenance	3,600	2,167	4,437	3,547	-	-	13,751
Instructional support services	8,904	6,477	3,456	1,475	-	-	20,312
Community services and economic development	122	35	11	2	-	-	170
Ancillary services and auxiliary operations	2,821	1,077	1,048	23	-	-	4,969
Student aid	-	-	-	-	20,070	-	20,070
Physical property and related acquisitions	-	-	5,209	3,077	-	-	8,286
Unallocated depreciation	-	-	-	-	-	5,681	5,681
Total	$80,901	$40,384	$ 23,567	$ 11,174	$ 20,070	$ 5,681	$ 181,777

Functional Expenses



STATEMENT OF CASH FLOWS

The Statement of Cash Flows is presented using the direct method and provides analysis related to cash inflows and outflows, summarized by operating, capital and noncapital financing, and investing activities, and illustrates the sources and uses of cash. This statement allows the reader to assess the District's ability to generate positive cash flows, meet obligations as they become due, and evaluate the need for external financing. The Statement of Cash Flows as of June 30, 2015, is presented below:

(Amounts in thousands)	2015	2014 (as restated)	Change
Cash Provided by (Used in)			
Operating activities	$ (143,852)	$ (118,094)	$ (25,758)
Noncapital financing activities	142,883	115,707	27,176
Capital financing activities	227,828	(42,637)	270,465
Investing activities	779	920	(141)
Net Increase (Decrease) in Cash	227,638	(44,104)	271,742
Cash, Beginning of Year	121,146	165,250	(44,104)
Cash, End of Year	$ 348,784	$ 121,146	$ 227,638

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 instructional programs. The increase was due mostly to payments to vendors, related to increases in Federal and State program expenditures, construction related costs, and STRS payments made on behalf of the District to the State. COLA payments received from the State explains the majority of the increase in noncapital financing activities.

In January 2015, the District successfully refinanced $127.9 million in Proposition M General Obligation bonds. The original general obligation bonds were sold with an average interest rate of 4.497 percent and final maturity in 2032. The new rate is 2.710 percent with the same maturity date. The District also issued Series C bonds in April 2015 in the amount of $220 million.

Cash from investing activities consists of interest earned on cash in bank and cash invested through the San Diego County Treasury.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the District had $340.7 million invested in net capital assets. The District continues to implement its long-range plan to modernize and renew its instructional and support services facilities to fulfill its mission. Construction in progress reflects multi-year projects which, once completed and placed into service, are generally categorized as capital assets. Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. However, capital assets, net of accumulated depreciation, are added to total net position.

Projects completed during the fiscal year 2014-2015 include:

- Baseball Field (Completion Date: June 2015)

Projects in progress during the fiscal year 2014-2015 include:

- Parking Structure/Police Substation
- Learning Resource Center
- Early Childhood Education Program Lab School (formerly Child Development Center)

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

(Amounts in thousands)

	Balance Beginning of Year (as restated)	Additions	Deletions	Balance End of Year
Land and construction in progress	$ 149,039	$ 22,827	$ (40,632)	$ 131,234
Buildings and improvements	203,820	41,998	(181)	245,637
Furniture and equipment	18,843	1,635	(159)	20,319
Subtotal	371,702	66,460	(40,972)	397,190
Accumulated depreciation	(51,046)	(5,681)	329	(56,398)
	$ 320,656	$ 60,779	$ (40,643)	$ 340,792

Obligations

As of June 30, 2015, the District had $695.1 million in debt primarily made up of general obligation and lease revenue bonds. Note 9 to the financial statements provides additional information on long-term obligations. A summary of long-term obligations is presented below:

(Amounts in thousands)

	Balance Beginning of Year (as restated)	Additions	Deletions	Balance End of Year
General obligation and lease revenue bonds	$ 345,283	$ 393,216	$ (138,901)	$ 599,598
Aggregate net pension obligation	107,301	-	(22,890)	84,411
Other liabilities	3,883	13,101	(5,887)	11,097
Total Long-Term Obligations	$ 456,467	$ 406,317	$ (167,678)	$ 695,106
Amount due within one year				$ 5,839

BUDGETARY HIGHLIGHTS

- The Governor signed the 2015-2016 State Budget, AB 93/SB97, on June 24, 2015. The 2015-2016 Budget Act provides $68.4 billion in Proposition 98, which guarantees minimum funding levels for K-12 schools and community colleges. This is an increase of $7.6 billion over the 2014-2015 fiscal year.

- The major components of the 2015-2016 State Budget Act includes:
  - $156.5 million or 3.0 percent for enrollment growth/restoration.
  - $47.3 million or 1.02 percent for a Cost of Living Allowance (COLA).
  - Over $200 million for Categorical programs, including EOPS, DSPS, CalWorks, SSSP and Student Equity, Childcare Tax Bailout programs, Institutional Effectiveness Partnership Initiative, and Apprenticeship programs.
  - Continuance of Mandated Block grant at $28 per FTES.
  - $38.7 million for Energy Efficiency through Proposition 39.
  - $62.3 million to support full-time faculty hiring (FON).
  - $49 million for the equalization for the Career Development and College Preparation (CDCP). Base funding for Noncredit CDCP FTES will increase from $3,232.06 per FTES to $ 4,636.49 per FTES.
  - $632 million for paying down mandated obligations (one-time).

- Enrollment fee for California resident students will remain at $46 per unit.

ECONOMIC OUTLOOK

The State's economic recovery, prior budget cuts, and the additional, temporary taxes provided by Proposition 30 have combined to bring California to a promising possible end of a decade of acute budget challenges. The State's job gains continue to outpace the nation, the unemployment rate drops below six percent. Housing and construction are up substantially. California has a diversified and innovative economy. Contributing to the strength of the economy of California and Southern California are strong and well developed technology, manufacturing, entertainment, and tourism sectors. Assuming steady economic growth and restraint in augmenting current program funding levels, there is an improved fiscal outlook in the years ahead.

While the State's economic recovery is progressing upward, California community colleges face future risks, and appropriate caution when increasing expenditures must be exercised as we move forward:

- Revenues from Proposition 30 are temporary – Proposition 30 established the Education Protection Account (EPA), which receives funding from increased taxes approved by initiative. The sales tax rate increase began in 2013 and lasts through 2016. The income taxes increase began in 2012 and will last through 2018. Unless the tax rate increases are extended at some later date, the State will begin to experience the loss of EPA revenues in fiscal year 2016-2017, and those revenues will be completely gone in fiscal year 2019-2020.

- Alternate revenue sources generated by the EPA and dissolution of Redevelopment Agencies (RDAs) are less reliable that general fund revenues. The California Community College funding system is based on estimated revenues, including student fees and property taxes. The lack of stability in the source of funding makes it difficult to budget, as colleges are not guaranteed that predicted revenues will materialize at the end of the fiscal year. If revenues do not come in at the level expected, the colleges are left with shortfalls in their budgets, which in turn requires colleges to make painful reductions to course offerings or services that affect students.

- Recently passed legislation, AB 1469 (2014), set in place a plan to close the $74 billion gap in unfunded California State Teachers' Retirement System (CalSTRS) liabilities over the next 30 years. The funding plan stipulates that the costs will be shared, with the State paying approximately 20 percent toward the amount unfunded, instructors paying 10 percent, and the remaining 70 percent is the responsibility of community colleges. Under AB 1469, the CalSTRS employer contribution rate for fiscal year 2014-2015 was 8.88 percent, an increase of 0.63 percent over fiscal year 2013-2014. The additional cost to districts from fiscal year 2015-2016 through fiscal year 2019-2020 will grow by an additional 1.85 percent annually. This represents an unfunded expense of the District's General Fund and will significantly impact our budget.

- The College's average productivity ratio declined from 470 in fiscal year 2012-2013 to 438 in fiscal year 2013-2014 to 424 in fiscal year 2014-2015. Increased course offerings impacted class fill rates, FTES, and productivity levels. Productivity ratio is a measure of operational efficiency, derived by dividing the Weekly Student Contact Hours (WSCH) by the Full-Time Equivalent (FTE) faculty member. The greater the number representing the productivity ratio (WSCH/FTE), the lower the per student cost to the College for instruction. The lower the productivity ratio, the more costly it is to teach a course. While the credit and noncredit FTES, along with a per college and per center allocation, are the basis for the District's State apportionment, State-established growth caps provide a ceiling on the level of FTES funding possible. The College recognizes the need to develop a comprehensive District-wide Enrollment Management Plan to ensure enhanced student success and maintain the fiscal viability and integrity of the District. The College's Enrollment Management Plan is intended to integrate marketing, outreach, program, scheduling, retention, persistence, research, intake, and staff development efforts to increase college enrollment in a cost effective manner.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Palomar Community College District, 1140 West Mission Road, San Marcos, California, 92069.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2015

ASSETS	
Current Assets	
Cash and cash equivalents	$ 1,561,388
Investments - unrestricted	35,063,367
Investments - restricted	312,159,454
Accounts receivable	6,869,565
Student loans receivable, net	931,075
Prepaid expenses	187,317
Total Current Assets	356,772,166
Noncurrent Assets	
Nondepreciable capital assets	131,233,626
Depreciable capital assets, net of depreciation	209,557,886
Total Noncurrent Assets	340,791,512
TOTAL ASSETS	697,563,678
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	13,270,434
Current year pension contribution	7,122,107
Net change in proportionate share of net pension obligation	68,141
Total Deferred Outflows of Resources	20,460,682
LIABILITIES	
Current Liabilities	
Accounts payable	17,282,297
Accrued interest payable	3,011,367
Unearned revenue	3,549,940
General obligation payable - current portion	4,045,000
Lease revenue bond payable - current portion	525,000
PARS supplemental early retirement obligation - current portion	1,269,126
Total Current Liabilities	29,682,730
Noncurrent Liabilities	
Compensated absences liability	2,640,131
Load banking	522,348
General obligation bonds - noncurrent portion	591,203,207
Lease revenue bond payable - noncurrent portion	3,825,000
PARS supplemental early retirement obligation - noncurrent portion	5,076,504
Net other postemployment benefits (OPEB) obligation	1,588,689
Aggregate net pension obligation	84,411,063
Total Noncurrent Liabilities	689,266,942
TOTAL LIABILITIES	718,949,672
DEFERRED INFLOWS OF RESOURCES	
Difference between projected and actual earnings on pension plan investments	23,832,725
NET POSITION	
Net investment in capital assets	2,240,931
Restricted for:	
Debt service	33,863,286
Capital projects	9,819,258
Educational programs	212,943
Unrestricted	(70,894,455)
TOTAL NET POSITION	$ (24,758,037)

The accompanying notes are an integral part of these financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES	
Student Tuition and Fees	$ 26,971,986
Less: Scholarship discount and allowance	(10,910,740)
Net tuition and fees	16,061,246
Other Operating Revenues	93,191
TOTAL OPERATING REVENUES	16,154,437
OPERATING EXPENSES	
Salaries	80,901,353
Employee benefits	40,384,426
Supplies, materials, and other operating expenses and services	23,566,666
Student financial aid	20,069,828
Equipment, maintenance, and repairs	11,173,581
Depreciation	5,681,183
TOTAL OPERATING EXPENSES	181,777,037
OPERATING LOSS	(165,622,600)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	29,779,740
Local property taxes, levied for general purposes	58,826,507
Taxes levied for other specific purposes	14,993,817
Federal grants	25,007,748
State grants	16,155,242
State taxes and other revenues	5,145,514
Investment income	778,590
Interest expense on capital related debt	(7,366,472)
Investment income on capital asset-related debt, net	57,565
Transfer from fiduciary funds	197,580
Transfer to fiduciary funds	(34,265)
Other nonoperating revenue	4,797,729
TOTAL NONOPERATING REVENUES (EXPENSES)	148,339,295
LOSS BEFORE OTHER REVENUES	(17,283,305)
State revenues, capital	532,456
Local revenues, capital	2,556,469
TOTAL OTHER REVENUES	3,088,925
CHANGE IN NET POSITION	(14,194,380)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	(10,563,657)
NET POSITION, END OF YEAR	$ (24,758,037)

The accompanying notes are an integral part of these financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 19,185,352
Payments to or on behalf of employees	(111,443,681)
Payments to vendors for supplies and services	(32,178,722)
Payments to students for scholarships and grants	(19,507,775)
Other operating receipts	93,191
Net Cash Flows From Operating Activities	(143,851,635)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	29,779,740
Property taxes - nondebt related	58,826,507
Grant and contracts	40,382,490
State taxes and other revenues	10,046,176
Other nonoperating	3,847,577
Net Cash Flows From Noncapital Financing Activities	142,882,490
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(23,336,732)
State revenue, capital projects	532,456
Local revenue, capital projects	2,556,469
Property taxes - related to capital debt	14,993,817
Proceeds from capital debt	393,216,002
Principal paid on capital debt	(138,901,273)
Interest paid on capital debt	(21,289,924)
Interest received on capital asset-related debt	57,565
Net Cash Flows From Capital Financing Activities	227,828,380
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	778,590
NET CHANGE IN CASH AND CASH EQUIVALENTS	227,637,825
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR, AS RESTATED	121,146,384
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 348,784,209

The accompanying notes are an integral part of these financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (165,622,600)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation expense	5,681,183
Changes in Assets, Liabilities, Deferred Inflows and Deferred Outflows of Resources:	
Receivables	947,222
Prepaid expenses	208,371
Current year pension contribution	(471,146)
Net change in proportionate share of net pension obligation	22,714
Accounts payable and accrued liabilities	5,048,675
Unearned revenue	2,176,884
Difference between projected and actual earnings on pension plan investments	23,832,725
Aggregate net pension obligation	(22,890,109)
Net OPEB obligation	1,603,449
PARS supplemental early retirement obligation	6,345,630
Load banking	11,649
Compensated absences	(746,282)
Total Adjustments	21,770,965
Net Cash Flows From Operating Activities	$ (143,851,635)

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 1,561,388
Cash in county treasury	347,222,821
Total Cash and Cash Equivalents	$ 348,784,209

NONCASH TRANSACTIONS	
On behalf payments for benefits	$ 2,396,838

The accompanying notes are an integral part of these financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

	Trust
ASSETS	
Cash and cash equivalents	$ 138,236
Investments	1,702,781
Accounts receivable	2,595
Student loan receivable, net	8,673
Total Assets	1,852,285
LIABILITIES	
Accounts payable	10,018
Unearned revenue	90,097
Total Liabilities	100,115
NET POSITION	
Unreserved	$ 1,752,170

The accompanying notes are an integral part of these financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Trust
ADDITIONS	
Local revenues	$ 886,156
DEDUCTIONS	
Classified salaries	1,180
Services and operating expenditures	74,458
Total Deductions	75,638
OTHER FINANCING SOURCES (USES)	
Transfer from primary government	34,265
Transfer to primary government	(197,580)
Other uses	(562,424)
Total Other Financing Sources (Uses)	(725,739)
Change in Net Position	84,779
Net Position - Beginning	1,667,391
Net Position - Ending	$ 1,752,170

The accompanying notes are an integral part of these financial statements.

NOTE 1 - ORGANIZATION

Palomar Community College District (the District) was established in January 1946 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected five member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and five education sites located within North San Diego County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District. The District identified no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, grants, entitlements, and donations. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants. Property tax revenue is recognized in the fiscal year in which they are received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
  - Statement of Net Position - Primary Government
  - Statement of Revenues, Expenses, and Changes in Net Position - Primary Government
  - Statement of Cash Flows - Primary Government
  - Financial Statements for the Fiduciary Funds including:
    - Statement of Fiduciary Net Position
    - Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of one year or less from the date of acquisition. Cash equivalents also include unrestricted cash with the County treasury for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2015, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Restricted Investments

Restricted investments arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted investments also represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff; the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at $1,939,446 for the year ended June 30, 2015.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30.

Capital Assets and Depreciation

Capital assets are recorded at cost at the date of acquisition or fair value at the date of gift. The District's capitalization policy includes all items with a unit cost of $5,000 (for equipment) and an estimated useful life of greater than one year. Buildings, renovations to buildings, and infrastructure, that cost more than $150,000, and land improvements that cost more than $100,000, and significantly increase the value, or extend the useful life of the structure, are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expense is incurred. Depreciation of equipment and vehicles, facilities, and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Costs for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

Land improvements	50 years
Buildings and improvements	50 years
Machinery and equipment	5-20 years

Debt Issuance Costs, Premiums, and Discounts

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized charges on the refunding of general obligation bonds, current year pension contributions, and net change in proportionate share of net pension obligation.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized. Unearned revenue includes (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Noncurrent Liabilities

Noncurrent liabilities include general obligation and lease revenue bonds, compensated absences, load banking, PARS supplemental early retirement, OPEB obligation, and the aggregate net pension obligation with maturities greater than one year.

Compensated Absences

Compensated absences are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District. The District also participates in and accrues "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Accumulated 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 for eligible employees when they retire.

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: Net position 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 invested in capital assets – net of related debt.

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.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report $43,895,487 of restricted net position.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year and are recorded in the District's financial records when received. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

Property taxes are assessed and levied by the County of San Diego on the fourth Monday of September of each year, and they become an enforceable lien on real property on January 1 of the same year. Secured taxes are payable to the District in two installments, on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. Tax remittances are paid net of a County administrative charge.

The District has reported property tax revenue only for taxes levied and due within the fiscal year. The District participates in the San Diego County Teeter Plan and is paid all current year taxes in the year levied. The Teeter Plan allows the County to follow the accrual method of accounting to allocate property tax revenues based on the total amount of property taxes billed, but not yet collected. A receivable has not been recognized in the basic financial statements for property taxes due to the fact that any receivable would be offset by a payable to the State for State apportionment purposes.

The voters of the District passed a General Obligation Bond in November 2006 for the acquisition, construction, and rehabilitation of facilities. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected by the San Diego County and remitted to the District.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the related *Compliance Supplement*.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

Change in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled, and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a State or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a State or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a State or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a State or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by $100,650,211. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. The restatement does not include deferred inflows of resources, as this information was not available.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.

- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of State and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the County of San Diego Investment pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments of the Primary Government as of June 30, 2015, consist of the following:

Primary government	$ 348,784,209
Fiduciary funds	1,841,017
Total Deposits and Investments	$ 350,625,226

Deposits and investments of the Fiduciary Funds as of June 30, 2015, consist of the following:

Cash on hand and in banks	$ 1,678,666
Cash in revolving	20,958
Investments	348,925,602
Total Deposits and Investments	$ 350,625,226

Interest Rate Risk

Interest rate risk is the risk that changes in market 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. The District manages its exposure to interest rate risk by investing in the County of San Diego Investment Pool.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Weighted Average to Maturity
County of San Diego Investment Pool	$ 348,968,726	356

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County of San Diego Investment Pool is not required to be rated. However, as of year end, the County of San Diego Investment Pool reflected an AAAf/S1 rating by Standard and Poor's Rating Service.

Custodial Credit Risk - Deposits

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. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). 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 agency. 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, 2015, the District's bank balance of $5,273,795 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	$ 1,647,462	$ -
State Government		
Categorical aid	79,800	-
Lottery	1,660,210	-
Other State sources	2,357,417	-
Local Sources		
Property taxes	147,253	-
Interest	321,370	-
Other local sources	656,053	2,595
Total	$ 6,869,565	$ 2,595
Student receivables	$ 2,870,521	$ 8,673
Less: Allowance for doubtful accounts	(1,939,446)	-
Total	$ 931,075	$ 8,673

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2015, was as follows:

	Balance Beginning of Year (as restated)	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 63,014,087	$ -	$ -	$ 63,014,087
Construction in progress	85,946,170	22,826,828	40,632,509	68,140,489
Works of art	79,050	-	-	79,050
Total Capital Assets Not Being Depreciated	149,039,307	22,826,828	40,632,509	131,233,626
Capital Assets Being Depreciated				
Land improvements	15,854,167	2,669,287	-	18,523,454
Buildings and improvements	187,965,735	39,328,541	181,020	227,113,256
Furniture and equipment	18,842,872	1,635,402	159,337	20,318,937
Total Capital Assets Being Depreciated	222,662,774	43,633,230	340,357	265,955,647
Total Capital Assets	371,702,081	66,460,058	40,972,866	397,189,273
Less Accumulated Depreciation				
Land improvements	12,009,419	432,861	-	12,442,280
Buildings and improvements	23,333,750	4,249,469	181,020	27,402,199
Furniture and equipment	15,702,557	998,853	148,128	16,553,282
Total Accumulated Depreciation	51,045,726	5,681,183	329,148	56,397,761
Net Capital Assets	$ 320,656,355	$ 60,778,875	$ 40,643,718	$ 340,791,512

Depreciation expense for the year was $5,681,183.

Interest expense on capital related debt for the year ended June 30, 2015, was $8,681,436. Of this amount, $1,314,964 was capitalized.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	$ 4,954,791	$ -
Apportionment	3,247,921	-
Construction	6,726,634	-
Other	2,352,951	10,018
Total	$ 17,282,297	$ 10,018

NOTE 7 - UNEARNED REVENUE

Unearned revenue consisted of the following:

	Primary Government	Fiduciary Fiduciary
State categorical aid	$ 208,584	$ -
Enrollment fees	3,341,356	90,097
Total	$ 3,549,940	$ 90,097

NOTE 8 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2015, there were no amounts owed between the primary government and the fiduciary funds.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2015 fiscal year, the amount transferred to the primary government from the fiduciary fund amounted to $197,580. The amount transferred to the fiduciary funds from the primary government amounted to $34,265.

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2015 fiscal year consisted of the following:

	Balance Beginning of Year (as restated)	Additions	Deductions	Balance End of Year	Due in One Year
Bonds Payable					
General obligation bonds	$ 340,428,478	$ 393,216,002	$ 138,396,273	$ 595,248,207	$ 4,045,000
Lease revenue bonds	4,855,000	-	505,000	4,350,000	525,000
Total Bonds	345,283,478	393,216,002	138,901,273	599,598,207	4,570,000
Other Obligations					
Compensated absences liability	3,386,413	-	746,282	2,640,131	-
Load banking	510,699	11,649	-	522,348	-
PARS Supplemental early retirement obligation	-	6,345,630	-	6,345,630	1,269,126
Net OPEB Obligation (Asset)	(14,760)	6,743,920	5,140,471	1,588,689	-
Aggregate Net Pension Obligation	107,301,172	-	22,890,109	84,411,063	-
Total Other Liabilities	111,183,524	13,101,199	28,776,862	95,507,861	1,269,126
Total Long-Term Obligations	$ 456,467,002	$ 406,317,201	$ 167,678,135	$ 695,106,068	$ 5,839,126

Description of Debt

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. The lease revenue bonds will be paid by the other debt service fund. The compensated absences and load banking liability will be paid by the fund for which the employee worked. The pay-as-you-go portion of the Net OPEB obligation will be paid by the Internal Service Fund. The PARS supplemental early retirement obligation will be paid by the unrestricted general fund. Pension expense related to the Aggregate net pension obligation will be paid by the fund for which the employee works. See Note 12 for further details of the Aggregate net pension obligation.

Bonded Debt

On November 7, 2006 the voters of the District approved the issuance of $694,000,000 general obligation bonds to be used to finance the acquisition, construction, and modernization of certain property and District facilities.

General Obligation Bonds, Election 2006, Series A

On April 17, 2007 the District issued General Obligation Bonds, Election 2006, Series A in the aggregate principal amount of $160,000,000. Bonds were issued with a final maturity date of May 1, 2032, and interest rates ranging from 4.00 percent to 5.00 percent, depending on the maturity of the related bonds. Interest is payable semiannually on May 1 and November 1 of each year. The outstanding principal balance of these bonds at June 30, 2015, was $7,925,000.

General Obligation Bonds, Election 2006, Series B

On October 28, 2010 the District issued General Obligation Bonds, Election 2006, Series B in the aggregate principal amount of $91,498,901. The Bonds consisted of $1,500,000 in Current Interest Serial Bonds, $27,883,490 in Capital Appreciation Serial Bonds, and $62,115,411 in Convertible Capital Appreciation Term Bonds. Bonds were issued with a final maturity date of August 1, 2045, and interest rates ranging from 2.36 percent to 6.72 percent, depending on the maturity of the related bonds. Interest is payable semiannually on August 1 and February 1 of each year. The outstanding principal balance of these bonds at June 30, 2015, was $118,983,053.

General Obligation Bonds, Election 2006, Series B-1

On October 28, 2010 the District issued General Obligation Bonds, Election 2006, Series B-1 (federally taxable) in the aggregate principal amount of $83,500,000. Bonds were issued with a final maturity date of August 1, 2045, with a current interest 7.94 percent. Interest is payable semiannually on August 1 and February 1 of each year. The outstanding principal balance of these bonds at June 30, 2015, was $83,500,000.

2015 General Obligation Refunding Bonds

On January 13, 2015 the District issued 2015 General Obligation Refunding Bonds in the aggregate principal amount of $115,675,000. Bonds were issued with a final maturity date of May 1, 2032, and interest rates ranging from 2.00 percent to 5.00 percent, depending on the maturity of the related bonds. The Bonds were issued to advance refund and defease a portion of the District's obligation related to the General obligation Bonds, 2006 Series A. Interest is payable semiannually on May 1 and November 1 of each year. The outstanding principal balance of these bonds at June 30, 2015, was $114,100,000.

General Obligation Bonds, Election 2006, Series C

On March 17, 2015 the District issued General Obligation Bonds, Election 2006, Series C in the aggregate principal amount of $220,000,000. Bonds were issued with a final maturity date of August 1, 2044, and interest rates ranging from 4.00 percent to 5.00 percent, depending on the maturity of the related bonds. Interest is payable semiannually on August 1 and February 1 of each year. The outstanding principal balance of these bonds at June 30, 2015, was $220,000,000.

Debt Maturity

General Obligation Bonds

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Restated Bonds Outstanding July 1, 2014	Issued	Accretion	Redeemed	Bonds Outstanding June 30, 2015
2006 A	4/17/2007	5/1/2017	4.00%-5.00%	$ 160,000,000	$139,270,000	$ -	$ -	$131,345,000	$ 7,925,000
2006 B	10/28/2010	8/1/2045	2.36%-6.72%	91,498,901	111,925,392	-	7,057,661	-	118,983,053
2006 B-1	10/28/2010	8/1/2045	7.94%	83,500,000	83,500,000	-	-	-	83,500,000
2006 C	3/17/2015	8/1/2044	4.00%-5.00%	220,000,000	-	220,000,000	-	-	220,000,000
	Subtotal Election 2006				$334,695,392	$220,000,000	$ 7,057,661	$131,345,000	$430,408,053
2015 Refunding	1/13/2015	5/1/2032	2.00%-5.00%	115,675,000	$ -	$115,675,000	$ -	$ 1,575,000	$114,100,000
				Premium on Debt	5,733,086	50,483,341	-	5,476,273	50,740,154
	Total General Obligation Bonds				$340,428,478	$386,158,341	$ 7,057,661	$138,396,273	$595,248,207

The General Obligation Bonds, Election 2006, Series A bonds mature through 2017 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	$ 3,765,000	$ 396,250	$ 4,161,250
2017	4,160,000	208,000	4,368,000
Total	$ 7,925,000	$ 604,250	$ 8,529,250

The General Obligation Bonds, Election 2006, Series B bonds mature through 2046 as follows:

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2016	$ 276,732	$ 3,268	$ -	$ 280,000
2017	412,615	17,385	-	430,000
2018	812,249	67,751	-	880,000
2019	1,032,073	142,927	-	1,175,000
2020	1,309,187	265,813	-	1,575,000
2021-2025	10,918,537	6,941,463	-	17,860,000
2026-2030	6,542,549	7,267,451	24,232,080	38,042,080
2031-2035	11,840,427	27,309,573	49,927,650	89,077,650
2036-2040	55,796,311	52,523,689	45,227,037	153,547,037
2041-2045	28,554,101	44,640,899	12,981,731	86,176,731
2046	1,488,272	2,326,728	243,206	4,058,206
Total	$ 118,983,053	$ 141,506,947	$ 132,611,704	$ 393,101,704

The General Obligation Bonds, Election 2006, Series B-1 bonds mature through 2046 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	$ -	$ 6,006,990	$ 6,006,990
2017	-	6,006,990	6,006,990
2018	-	6,006,990	6,006,990
2019	-	6,006,990	6,006,990
2020	-	6,006,990	6,006,990
2021-2025	-	30,034,950	30,034,950
2026-2030	-	30,034,950	30,034,950
2031-2035	-	30,034,950	30,034,950
2036-2040	-	30,034,950	30,034,950
2041-2045	50,500,000	27,768,840	78,268,840
2046	33,000,000	2,374,020	35,374,020
Total	$ 83,500,000	$ 180,317,610	$ 263,817,610

The 2015 General Obligation Refunding Bonds mature through 2032 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	$ -	$ 5,665,900	$ 5,665,900
2017	-	5,665,900	5,665,900
2018	3,910,000	5,665,900	9,575,900
2019	4,265,000	5,509,500	9,774,500
2020	4,715,000	5,296,250	10,011,250
2021-2025	30,995,000	22,468,250	53,463,250
2026-2030	46,325,000	13,272,250	59,597,250
2031-2032	23,890,000	1,813,000	25,703,000
Total	$ 114,100,000	$ 65,356,950	$ 179,456,950

The General Obligation Bonds, Election 2006, Series C bonds mature through 2045 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	$ -	$ 8,044,030	$ 8,044,030
2017	6,430,000	9,819,150	16,249,150
2018	7,105,000	9,648,275	16,753,275
2019	1,060,000	9,525,800	10,585,800
2020	180,000	9,506,300	9,686,300
2021-2025	3,835,000	47,130,200	50,965,200
2026-2030	10,140,000	45,422,250	55,562,250
2031-2035	19,250,000	41,900,150	61,150,150
2036-2040	42,575,000	36,023,100	78,598,100
2041-2045	129,425,000	16,345,250	145,770,250
Total	$ 220,000,000	$ 233,364,505	$ 453,364,505

Lease Revenue Bonds 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 percent to 5.625 percent depending on the maturity of the related bonds. The bonds will mature on April 1, 2031. The source of revenue to pay off the debt will come from the Student Center Fee Fund. Future principal and interest payments are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	110,000	94,600	204,600
2021-2025	645,000	380,031	1,025,031
2026-2030	835,000	183,456	1,018,456
2031	195,000	9,994	204,994
Total	$ 2,175,000	$ 1,096,256	$ 3,271,256

Lease Revenue Bonds 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 District's 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 was 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 percent to 4.0 percent 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:

Fiscal Year	Principal	Interest to Maturity	Total
2016	$ 435,000	$ 60,900	$ 495,900
2017	450,000	45,450	495,450
2018	460,000	31,800	491,800
2019	475,000	1,775	476,775
2020	355,000	5,325	360,325
Total	$ 2,175,000	$ 145,250	$ 2,320,250

PARS Supplemental Early Retirement Obligation

In June 2015, the District has entered into a PARS Supplemental Early Retirement Plan for employees retiring as of June 30, 2015, and met certain eligibility requirements. The District will pay the liability over five year periods per the agreement as follows

Fiscal Year	Payment
2016	$ 1,269,126
2017	1,269,126
2018	1,269,126
2019	1,269,126
2020	1,269,126
Total	$ 6,345,630

Compensated Absences

The compensated absences liability outstanding at June 30, 2015, was $2,640,131.

Load Banking

The load banking liability outstanding at June 30, 2015, was $522,348.

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2015, was $6,845,177, and contributions made by the District during the year were $5,140,471. Interest on the net OPEB asset was $101,257, which resulted in increase to the net OPEB obligation of $1,603,449. As of June 30, 2015, the net OPEB obligation was $1,588,689. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Aggregate Net Pension Obligation

The Aggregate Net Pension Obligation outstanding at June 30, 2015, was $84,411,063. See Note 12 for additional information regarding the Aggregate Net Pension Obligation.

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The Plan is a single-employer defined benefit health care plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 681 active participants and 446 retirees at June 30, 2015.

Contribution Information

The contribution requirements are established and may be amended by the District and the District's bargaining units. The Plan is currently funded on a projected pay-as-you-go basis. For fiscal year 2014-2015, the District contributed $5,140,471, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments 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 accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 6,845,177
Change in OPEB trusts assets	(101,257)
Annual OPEB cost (expense)	6,743,920
Contributions made	(5,140,471)
Increase in net OPEB (asset) obligation	1,603,449
Net OPEB (asset) obligation, beginning of year	(14,760)
Net OPEB (asset) obligation, end of year	$ 1,588,689

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB (asset) obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB (Asset) Obligation
2013	$ 6,359,619	$ 9,244,972	145%	$ (650,918)
2014	5,940,403	5,304,245	89%	(14,760)
2015	6,743,920	5,140,471	76%	1,588,689

Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	$ 90,841,984
Less Actuarial Value of Plan Assets	3,950,994
Unfunded Actuarial Accrued Liability (UAAL)	$ 86,890,990
Funded Ratio (Actuarial Value of Plan Assets/AAL)	4.35%
Covered Payroll	55,493,128
UAAL as Percentage of Covered Payroll	156.58%

The above noted actuarial accrued liability was based on the August 1, 2014, actuarial valuation. Actuarial valuation of an ongoing plan involves 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 contribution 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 Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets 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 the 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 values of assets, consistent with the long-term perspective of the calculations.

In the August 1, 2014, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a four percent investment rate of return, based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. The UAAL is being amortized at a level dollar method. The remaining amortization period is 24 years. The actuarial value of assets was $3,950,994 as of June 30, 2015.

NOTE 11 - RISK MANAGEMENT

Insurance Coverages

The District is exposed to various risks of loss related to torts and liability; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District obtains coverage for these risks as a member of various joint powers authorities or through the purchase of coverage from a risk retention group. The District uses Schools Association for Excess Risk (SAFER) for excess property limits of $250,000,000 per occurrence, with no aggregate and a $5,000 member retained limit. Then, their excess liability has the first $1,000,000 worth of coverage through the Statewide Association of Community Colleges (SWACC) and $25,000,000 excess coverage of $1,000,000 is in SAFER with a $50,000 Member Retained Limit.

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2015, the District contracted with SWACC Joint Powers Authority (JPA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2014-2015, the District participated in the Protected Insurance Programs for Schools (PIPS) JPA, an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated, and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

Insurance Program / Company Name	Type of Coverage	Limits
Protected Insurance Program for Schools (PIPS)	Workers' Compensation	$ 150,000,000
Schools Association For Excess Risk (SAFER)	Excess Workers' Compensation	$ 25,000,000
Statewide Association of Community Colleges (SWACC)	Property and Liability	$ 250,000,000

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense, and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	$ 53,119,316	$ 3,376,746	$ 13,080,530	$ 4,585,912
CalPERS	31,291,747	3,813,502	10,752,195	2,781,197
Total	$ 84,411,063	$ 7,190,248	$ 23,832,725	$ 7,367,109

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by CalSTRS. STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above, and the District's total contributions were $3,376,746.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	$ 53,119,316
State's proportionate share of net pension liability associated with the District	32,075,736
Total	$ 85,195,052

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.0909 percent.

For the year ended June 30, 2015, the District recognized pension expense of $4,585,912. In addition, the District recognized revenue and pension expense of $2,769,172 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,376,746	$ -
Difference between projected and actual earnings on pension plan investments	-	13,080,530
Total	$ 3,376,746	$ 13,080,530

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflow of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	$ 3,270,133
2017	3,270,133
2018	3,270,132
2019	3,270,132
Total	$ 13,080,530

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary investment practice, a best estimate range was determined assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	$ 82,799,121
Current discount rate (7.60%)	53,119,316
1% increase (8.60%)	28,371,752

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above, and the total District contributions were $3,745,361.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $31,291,747. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2014 and June 30, 2013, respectively, was 0.2756 percent and 0.2743 percent, resulting in a net increase in the proportionate share of 0.0013 percent.

For the year ended June 30, 2015, the District recognized pension expense of $2,781,197. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,745,361	$ -
Net change in proportionate share of net pension obligation	68,141	-
Difference between projected and actual earnings on pension plan investments	-	10,752,195
Total	$ 3,813,502	$ 10,752,195

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred outflows of resources related to the net change in proportionate share of net pension obligation will be amortized over the Expected Average Remaining Service Lives (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2013-2014 measurement period is 3.9 years, and the pension expense will be recognized as follows:

Year Ended June 30,	Amortization
2016	$ 22,714
2017	22,714
2018	22,713
Total	$ 68,141

The deferred inflow of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	$ 2,688,049
2017	2,688,049
2018	2,688,049
2019	2,688,048
Total	$ 10,752,195

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.50%)	$ 54,892,867
Current discount rate (7.50%)	31,291,747
1% increase (8.50%)	11,570,631

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 fiscal years ended June 30, 2015, 2014, and 2013, which amounted to $2,396,838, $2,036,267, and $1,956,700, respectively, (5.679 percent) 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 years ended June 30, 2015, 2014, and 2013. 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 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The 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); the 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.

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.

The 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 is responding to the GASB Statement 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.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Expenditures under leases for the year ended June 30, 2015, amount to $585,320. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2016	$ 512,418
2017	466,135
2018	512,418
Total	1,490,971

Construction Commitments

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Baseball Field Relocation	$ 1,212,501	8/14/2015
Child Development Center	8,477,148	12/15/2015
New Parking Structure/Police Substation	30,659,273	8/15/2017
Library/LRC	61,557,593	12/15/2017
Maintenance and Operations Building	15,474,000	1/15/2018
	$ 117,380,515	

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District's prior year beginning net position has been restated as of June 30, 2015.

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Also, the beginning net position was restated for the correction of errors. The Other Postemployment Benefit Plan obligation, Cash with Fiscal Agent held within a trust, and the District's General Obligation Bonds were not properly accounted for. See the reconciliation of the beginning net position below.

Primary Government	
Net Position - Beginning	$ 92,424,849
Change in Accounting Principles:	
Restatement of Long-Term Obligations for implementation of GASB Statement No. 68	(107,301,172)
Restatement of Deferred Outflows of Resources for implementation of GASB Statement No. 68	6,650,961
Correction of an Error:	
Bonds payable	(2,372,579)
Net other postemployment benefits (OPEB) obligation	3,900,416
Capital assets	162,653
Cash with Fiscal Agent	(4,028,785)
Net Position - Beginning, as Restated	$ (10,563,657)

REQUIRED SUPPLEMENTARY INFORMATION

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Method *Used (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
August 1, 2010	$ -	$ 78,499,867	$ 78,499,867	0.00%	$ 53,321,972	147%
August 1, 2012	1,950,000	84,229,998	82,279,998	2.32%	56,569,280	145%
August 1, 2014	3,950,994	90,841,984	86,890,990	4.35%	55,493,128	157%

* Entry age normal

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

District's proportion of the net pension liability	0.0909%
District's proportionate share of the net pension liability	$ 53,119,316
State's proportionate share of the net pension liability associated with the District	32,075,736
Total	$ 85,195,052
District's covered - employee payroll	$ 40,938,175
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	129.75%
Plan fiduciary net position as a percentage of the total pension liability	77%

CalPERS

District's proportion of the net pension liability	0.2756%
District's proportionate share of the net pension liability	$ 31,291,747
District's covered - employee payroll	$ 28,936,290
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	108.14%
Plan fiduciary net position as a percentage of the total pension liability	83%

Note : In the future, as data become available, ten years of information will be presented.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015

Contractually required contribution	$ 3,376,746
Contributions in relation to the contractually required contribution	(3,376,746)
Contribution deficiency (excess)	$ -
District's covered - employee payroll	$ 38,026,419
Contributions as a percentage of covered - employee payroll	8.88%

CalPERS

Contractually required contribution	$ 3,745,361
Contributions in relation to the contractually required contribution	(3,745,361)
Contribution deficiency (excess)	$ -
District's covered - employee payroll	$ 31,818,546
Contributions as a percentage of covered - employee payroll	11.771%

Note : In the future, as data become available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

PALOMAR COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2015

Palomar Community College District was established in January 1946 and is comprised of an area of approximately 2,555 square miles located in North San Diego County. There were no changes in the boundaries of the District during the current year. The District is accredited by the Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

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

ADMINISTRATION

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

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant	84.063		$16,767,707
Federal Pell Administrative Allowance	84.063		10,552
Federal Work Study	84.033		274,790
Federal Work Study Administrative Allowance	84.033		65,859
Federal Supplemental Educational Opportunity Grant	84.007		434,399
Direct Student Loan	84.268		1,097,534
Total Student Financial Assistance Cluster			18,650,841
TRIO Cluster			
Palomar College North County Educational Opportunity Centers	84.066A		193,803
Student Support Services	84.042A		231,446
Upward Bound	84.047A		559,063
Talent Search	84.044A		267,267
Total TRIO Cluster			1,251,579
Strengthening the Palomar to CSUSM STEM Transfer Pathway	84.031S		877,541
Determined to Achieve: Successful Pathways to a STEM Degree	84.031C		979,090
Gear-Up	84.334A		2,377,530
Passed through from the California Community Colleges Chancellor's Office			
Career and Technical Education Act (CTEA)	84.048	14-C01-039	599,094
CTE-Transitions	84.048A	[1]	23,130
Total U.S. Department of Education			24,758,805
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Educational Assistance	64.028		13,362
Total U.S. Department of Veterans Affairs			13,362
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the California Department of Education			
Child and Adult Care Food Program	10.558	[1]	53,734
Total U.S. Department of Agriculture			53,734

* Research and Development Program.

[1] Pass-Through Entity Identifying Number not available.

[2] The difference between the Schedule of Expenditures of Federal Awards and Federal revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position is due to differences of $15,815 related to revenue recognition principles in various programs.

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015, CONTINUED

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
NATIONAL SCIENCE FOUNDATION			
Passed through the Kentucky Community and Technical College System			
National GeoTech Center of Excellence*	47.076	KCT-PS-618	$ 24,518
Passed through the University Auxiliary and Research			
Services Corporation Increasing Stem Talent (STEP)*	47.076	UARSC-85774-CD	76,150
Advancing Geospatial Technology Pathways at Palomar College*	47.076		627
Total National Science Foundation			101,295
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through from the California Community Colleges Chancellor's Office			
Temporary Assistance for Needy Families	93.558	[1]	37,537
Passed through Yosemite Community College District			
Child Development Training Consortium	95.575	14-15-4489	27,200
Total U.S. Department of Health and Human Services			64,737
Total Federal Expenditures			$ 24,991,933 [2]

* Research and Development Program.
[1] Pass-Through Entity Identifying Number not available.
[2] The difference between the Schedule of Expenditures of Federal Awards and Federal revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position is due to differences of $15,815 related to revenue recognition principles in various programs.

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

	Program Entitlements		
Program	Current Year	Prior Year	Total Entitlement
Nursing Education	$ 150,437	$ -	$ 150,437
Basic Skills	174,068	-	174,068
Board Financials Assitance Program	169,310	-	169,310
CalWorks	179,300	2	179,302
Cooperative Agencies Resources for Education	78,801	-	78,801
Disabled Students Programs and Services	1,123,975	20,774	1,144,749
Extended Opportunities, Programs and Services (EOPS)	974,035	-	974,035
Assessment, Remediation, Retention Nursing Grant	79,800	-	79,800
Total			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
$ 150,437	$ -	$ 71,683	$ 78,754	$ 78,754
174,068	-	131,644	42,424	42,424
169,310	-	-	169,310	169,310
179,302	-	1,877	177,425	177,425
78,396	-	-	78,396	78,396
1,144,749	-	-	1,144,749	1,144,749
974,035	-	3,380	970,655	970,655
-	79,800	-	79,800	79,800
$ 2,870,297	$ 79,800	$ 208,584	$ 2,741,513	$ 2,741,513

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2015

CATEGORIES	*(Revised) Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2014 only)			
1. Noncredit**	102	-	102
2. Credit	1,172	-	1,172
B. Summer Intersession (Summer 2015 - Prior to July 1, 2015)			
1. Noncredit**	8	-	8
2. Credit	1,558	-	1,558
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	11,274	-	11,274
(b) Daily Census Contact Hours	780	-	780
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	664	-	664
(b) Credit	783	-	783
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,674	-	2,674
(b) Daily Census Contact Hours	614	-	614
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	19,629	-	19,629
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	128	-	128
H. Basic Skills Courses and Immigrant Education			
1. Noncredit**	729	-	729
2. Credit	597	-	597
CCFS-320 Addendum			
CDCP Noncredit FTES	495	-	495
Centers FTES			
1. Noncredit**	212	-	212
2. Credit	1,454	-	1,454

* Annual report revised as of October 21, 2015.
** Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION FOR THE YEAR ENDED JUNE 30, 2015

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional Salaries							
Contract or Regular	1100	$ 20,228,559	$ -	$ 20,228,559	$ 20,228,559	$ -	$ 20,228,559
Other	1300	16,370,105	-	16,370,105	16,370,105	-	16,370,105
Total Instructional Salaries		36,598,664	-	36,598,664	36,598,664	-	36,598,664
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	8,582,167	-	8,582,167
Other	1400	-	-	-	622,420	-	622,420
Total Noninstructional Salaries		-	-	-	9,204,587	-	9,204,587
Total Academic Salaries		36,598,664	-	36,598,664	45,803,251	-	45,803,251
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	19,464,195	-	19,464,195
Other	2300	-	-	-	1,393,822	-	1,393,822
Total Noninstructional Salaries		-	-	-	20,858,017	-	20,858,017
Instructional Aides							
Regular Status	2200	1,411,719	-	1,411,719	1,411,719	-	1,411,719
Other	2400	507,584	-	507,584	507,584	-	507,584
Total Instructional Aides		1,919,303	-	1,919,303	1,919,303	-	1,919,303
Total Classified Salaries		1,919,303	-	1,919,303	22,777,320	-	22,777,320
Employee Benefits	3000	8,423,452	-	8,423,452	15,216,732	-	15,216,732
Supplies and Material	4000	-	-	-	890,247	-	890,247
Other Operating Expenses	5000	-	-	-	8,772,168	-	8,772,168
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		46,941,419	-	46,941,419	93,459,718	-	93,459,718

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	$ -	$ -	$ -	$ -	$ -	$ -
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	-	-	-
Objects to Exclude							
Rents and Leases	5060	-	-	-	442,576	-	442,576
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	$ -	$ -	$ -	$ 3,016,411	$ -	$ 3,016,411
Capital Outlay							
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	3,458,987	-	3,458,987
Total for ECS 84362, 50 Percent Law		$ 46,941,419	$ -	$ 46,941,419	$ 90,000,731	$ -	$ 90,000,731
Percent of CEE (Instructional Salary Cost/Total CEE)		52.16%		52.16%	100.00%		100.00%
50% of Current Expense of Education					$ 45,000,366		$ 45,000,366

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements.

	General Fund	Child Development Fund	Bond Fund	Internal Service Fund
FUND BALANCE				
Balance, June 30, 2015, (CCFS-311)	$ 17,149,134	$ 180,756	$ 260,265,518	$ 15,235,390
Decrease in:				
Cash with fiscal agent	-	-	-	(4,061,271)
Cash in County	-	-	218,563	-
Compensated absences	2,801,213	-	-	-
Load banking	522,348	32,187	38,545	-
State categorical revenue	(128,784)	-	-	-
Balance, June 30, 2015, Audited	$ 20,343,911	$ 212,943	$ 260,522,626	$ 11,174,119

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT FOR THE YEAR ENDED JUNE 30, 2015

Activity Classification	**Object Code**				**Unrestricted**
EPA Proceeds:	8630				$ 16,700,259
Activity Classification	**Activity Code**	**Salaries and Benefits (Obj 1000-3000)**	**Operating Expenses (Obj 4000-5000)**	**Capital Outlay (Obj 6000)**	**Total**
Instructional Activities	1000-5900	$ 16,700,259	-	-	$ 16,700,259
Total Expenditures for EPA		$ 16,700,259	-	-	$ 16,700,259
Revenues Less Expenditures					$ -

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Total Fund Balance:		
General Funds	$ 20,343,911	
Special Revenue Funds	212,943	
Capital Project Funds	270,341,884	
Debt Service Funds	33,863,286	
Internal Service Funds	11,174,119	
Fiduciary Funds	3,786	
Total Fund Balance		**$ 335,939,929**
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	397,189,273	
Accumulated depreciation is	(56,397,761)	340,791,512
The District has refunded debt obligations. The difference between the amount that was sent to escrow agent for the payment of the old debt and the actual remaining debt obligations will be amortized as an adjustment to interest expense.		13,270,434
Contributions to pension plans made subsequent to the measurement date were recognized as expenditures on the modified accrual basis, but are not recognized on the accrual basis.		7,122,107
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(3,011,367)
The net change in proportionate share of net pension obligation as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.		68,141
Difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(23,832,725)
Long-term obligations at year end consist of:		
Bonds payable	595,248,207	
Lease revenue bonds	4,350,000	
OPEB obligation	1,588,689	
PARS supplemental early retirement obligation	6,345,630	
Compensated absences	2,640,131	
Load banking	522,348	
Aggregate net pension obligation	84,411,063	(695,106,068)
Total Net Position		**$ (24,758,037)**

See accompanying note to supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
Strengthening the Palomar to CSUSM STEM Transfer Pathway	84.031S	$ 134,332

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's internal fund financial statements.

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

Reconciliation of Governmental Funds to the Statement of Net Position

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S 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*

Board of Trustees
Palomar Community College District
San Marcos, California

We have audited, 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, the basic financial statements of the business-type activities, and the aggregate remaining fund information of Palomar Community College District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 18, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 15 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District'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.

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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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompany Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency as item 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

We noted certain matters that we reported to management of the District in a separate letter dated December 18, 2015.

Palomar Community College District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

San Diego, California
December 18, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
Palomar Community College District
San Marcos, California

Report on Compliance for Each Major Federal Program

We have audited Palomar Community College District's (the District) 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 the District's major Federal programs for the year ended June 30, 2015. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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 the 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 State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider 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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2015.

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Report on Internal Control Over Compliance

Management of the 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 the 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 the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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.

Vavrinek, Trine, Day & Co. LLP

San Diego, California
December 18, 2015

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Palomar Community College District
San Marcos, California

Report on State Compliance

We have audited Palomar Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in August 2014 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in August 2014.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion for Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2015.

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

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	Schedule 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 440	Intersession Extension Programs
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 (TBA) Hours
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore, the compliance tests within this section were not applicable.

The District does not offer an Intersession Extension Program; therefore, compliance tests within this section were not applicable.

Vavrinek, Trine, Day & Co. LLP

San Diego, California
December 18, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALOMAR COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.063, 84.033, 84.007, 84.268	Student Financial Assistance Cluster
84.031S	Strengthening the Palomar to CSUSM STEM Transfer Pathway
84.031C	Determined to Achieve: Successful Pathways to a STEM Degree
84.048	Career and Technical Education Act (CTEA)
84.048A	CTE-Transitions

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2015

The following finding represents a significant deficiency related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2015-001 Financial Reconciliation Process

Criteria or Specific Requirement

The accounting system used to record the financial affairs of any community college district shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges *Budget and Accounting Manual* (BAM). Colleges are also required to present their financial statements in accordance with generally accepted accounting principles (GAAP).

Condition

Significant Deficiency - Errors were made within the closing process of the District's financial records during the current fiscal year. Material adjustments and reclassifications were required to conform to the BAM. Errors and/or insufficient reconciliations were found in various accounts including, but not limited to:

- Federal and State Categorical Programs

  End of the year accrual entries to close Federal and State programs were not properly made. Adjustments were made to reflect deferred revenues and receivables related to the programs.

- Accounts Payable

  The District is not reconciling their accounts payable accounts including their payroll related liability accounts in a timely manner. Reconciliations were not prepared during the current fiscal year.

- Long-Term Obligations

  The District incorrectly recorded long-term obligations within their individual governmental funds. Only based on District analysis and estimation of the vacation used in the next fiscal year can the current portion of these liabilities be included in the governmental funds.

- Inter-Fund Activity

  Amounts owing between funds of the District were not appropriately monitored during the year and reconciled at year end.

Effect

Material adjustments to the general ledger were proposed as a result of the audit procedures. These adjustments were accepted by management to ensure the financial statements were presented fairly.

Cause

The oversight controls over the closing process were not operating effectively, resulting in adjustments and a material weakness.

Recommendation

The District needs to develop a closing procedure calendar at year end to ensure that all information is prepared, reviewed, and reconciled prior to the closing of the general ledger. All inter-fund activity accounts should be examined and investigated to determine the purpose of the inter-fund borrowings and the true amount owed to various funds.

Management's Response and Corrective Action Plan

The District had a closing procedure calendar at year end; however, due to the Supplemental Early Retirement Program (SERP), the Fiscal Department lost key positions, including the Director of Fiscal Services, Accounting Manager, and Internal Auditor at the most crucial time of the fiscal year. The CalPERS regulations do not allow the District to re-hire SERP retirees to assist with the year-end close. The District has replaced the Director position and is in the process of hiring replacements for the Accounting Manager and Internal Auditor positions with an anticipated start date of February 2016. The District will address the 2015-001 financial reconciliation finding by ensuring that the year-end closing calendar and procedures are established, adhered to, and reviewed prior to closing the general ledger next fiscal year.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

PALOMAR COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.