February 24, 2021

To the Board of Trustees
Palomar Community College District
San Marcos, California

We have audited the financial statements of Palomar Community College District (the District) as of and for the year ended June 30, 2020, and have issued our report thereon dated February 24, 2021. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated May 18, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the District complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the District's major federal program compliance, is to express an opinion on the compliance for each of the Distict's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the District's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our 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* dated February 24, 2021. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance dated February 24, 2021.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

> Management's estimate of the aggregate net other postemployment benefit (OPEB) liability, related deferred outflows of resources, deferred inflows of resources, and OPEB expense is based on the work performed by an actuary, utilizing projections of future benefit costs, actuarial assumptions such as inflation, benefit cost increases, mortality rates, and discount rates.

Management's estimate of the aggregate net pension liability, related deferred outflows of resources, deferred inflows of resources, and pension expense is based on the District's proportionate share of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) estimated net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, which were actuarially determined; utilizing projections of future contributions and future earnings, actuarial assumptions such as inflation, salary increases, mortality rates, and investment rate of return and discount rates in the determination of the final balances reported in the CalSTRS and CalPERS audited financial statements. The District's proportionate share was determined by calculating the District's share of contributions to the pension plan relative to the contributions of all participating entities in the plan.

Management's estimate of the collectability of student accounts are based on past history and current market conditions. We evaluated the key factors and assumptions used to develop the collectability of student accounts and determined that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Primary Government	
Understatement of Cash in County Treasury (fair market value adjustment)*	$3,275,718
Aggregate Remaining	
Understatement of Cash in County Treasury (fair market value adjustment)*	$9,541

*Fair market value was not adjusted because gains or losses generally do not materialize due to the nature of the investment in the county treasury pool. Redemptions of this investment are generally at face value. This accounting policy treatment is consistent with prior years and consistent with similar institutions, and no new policies were adopted during the year ended June 30, 2020.

The effect of these uncorrected misstatements as of and for the year ended June 30, 2020, is an understatement of change in net position of $3,275,718, and understatement of net position of $3,275,718 for the primary government, and an understatement of change in net position of $9,541, and understatement of net position of $9,541, for the fiduciary funds.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated February 24, 2021.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

However, in accordance with such standards, we will review the information inputted into the data collection form and will consider whether such information, or the manner of its presentation, is materially consistent with the financial statements.

This report is intended solely for the information and use of the Board of Trustees and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2021

Financial Statements
June 30, 2020

Palomar Community College District

eidebailly.com

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, 2020, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2020 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 4 through 21 and other required supplementary schedules listed in the table of contents on pages 75 through 78 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 financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and the other supplementary information listed in the table of contents are the responsibility of management and were derived from and relate 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 Schedule of Expenditures of Federal Awards and other supplementary information listed in the table of contents are 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 February 24, 2021, 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 solely 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 effectiveness of the District's 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.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2021

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, 2020 and 2019. The District's administration prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Since this MD&A is designed to focus on current activities, resulting change and currently known facts, it is best read in conjunction with the District's financial statements and the accompanying notes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District's administration.

The California Community Colleges Chancellor's Office, through its Fiscal Standards and Accountability Committee, has recommended that all community college districts follow the Business-Type Activity (BTA) model for financial statement reporting purposes. The District applied the BTA reporting model to fully comply with the recommendation. Under this model, the District's financial statements provide a comprehensive entity-wide perspective at the District's financial position and activities. Accordingly, financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when the obligation has been incurred. All significant intra-agency transactions have been eliminated. As required by the Governmental Accounting Standards Board (GASB) principles, the Audited Annual Financial Report consists of three basic financial statements that focus on the District as a whole:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

THE DISTRICT

The California Community Colleges (CCCs) form the largest system of higher education in the nation composed of 73 districts encompassing 116 campuses, and 78 educational centers serving approximately 2.1 million students per year. Community colleges supply certificate and degree programs, basic skills education, workforce education training, and preparation for transfer to four-year institutions.

Founded in 1946, Palomar Community College District is the largest single community college district in San Diego County. The District is a special-purpose political subdivision of the State of California and has been an important provider of higher education and training to the 2,555 square miles of the District's service area. The District operates its main campus in the City of San Marcos, about 30 miles from the City of San Diego. Committed to providing educational services to the entire service area, Palomar takes learning to its surrounding communities via three educational centers located in the cities of Escondido, Rancho Bernardo, and Fallbrook, augmented by outreach sites in the northern part of the City of San Diego and unincorporated portions of the County, including Camp Pendleton, Fallbrook, Mt. Carmel, Ramona, and Pauma Valley.

Rancho Bernardo Education Center	MD Building, San Marcos Campus
	

Palomar Community College District is a public, two-year community college that offers more than 150 associate degrees and certificates through 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. In fiscal year 2019-20 a total of 4,713 degrees and certificates were earned by students. At Palomar, students may choose from 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.

Our vision is “***Learning for Success***” and it is our mission “*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.*” The District promotes open access and celebrates the diversity of its students, faculty, staff, and the community. Annually, we serve about 35,000 full-time and part-time students. Approximately 34% of students are enrolled full-time in credit courses, while about 62% are enrolled part-time in credit courses, and 4% are enrolled in noncredit courses. About 64% of our students are 24 and under, while 36% are 25 and older. The diversity of our students and employees creates a dynamic, exciting environment in which to work and learn. We are proud to have been designated by the U.S. Department of Education as a Hispanic-serving institution.

A community-elected five-member Governing Board governs Palomar Community College District. Each member is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two or three available positions. The Board also seats an elected student trustee as a non-voting member. The management and policies of the District are administered by a Superintendent/President who is appointed by the Board and is responsible for the day-to-day operations of the District and supervision of the executive administrators, faculty, and staff. Currently, Dr. Jack Kahn serves as the Interim Superintendent/President of the District.

ACCREDITATION

Palomar College is accredited through the Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC), an institutional accrediting body recognized by the Council of Higher Education Accreditation and the Department of Education. 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.

BUDGETARY AND FINANCIAL INFORMATION

The budgetary and financial accounts of the District are recorded and maintained in accordance with Title 5 of the Education Code § 70901, Title 5 § 59011 of the California Code of Regulations, and the Generally Accepted Accounting Principles (GAAP) for State and local governments as determined by the Governmental Accounting Standards Board (GASB). Each community college district is mandated to adhere to the California Community Colleges Chancellor's Office *Budget and Accounting Manual*, distributed as part of the Board of Governor's responsibility to define, establish, and maintain the budgeting and accounting structure and procedures for all districts.

The California Community Colleges (CCCs) have a diverse student body and a mission that includes reducing equity gaps, providing educational access and opportunity, and strengthening the State's economy. Assembly Bill 1809, the higher education trailer bill that passed as part of the 2018-19 Budget Act, implemented the new *Student-Centered Funding Formula* (SCFF). In reforming the funding formula for general apportionments, the State aims to advance the goals outlined in the *Vision for Success* adopted by the Board of Governors, which includes the goal of closing achievement gaps for historically underrepresented students by 2022. The new formula supports access through enrollment-based funding and also focuses on rewarding student equity and success by targeting funds to districts serving low-income students and by providing additional resources for students' successful outcomes. The SCFF includes three components (1) Basic Allocation, based on the number of colleges and state-approved education centers, together with funding based on per-student rates for traditional credit FTES, incarcerated credit FTES, special admit credit FTES, non-credit FTES, and career development and college preparation (CDCP) non-credit FTES (2) Supplemental Allocation, based on the number of certain types of low-income students, and (3) Student Success Allocation, calculated using various performance-based metrics.

In 2019-20, the District's Governing Board adopted a total budget of $635,205,156, of which $163,348,843 was the General Unrestricted Fund, the chief operating fund of the District. As reported to the State Chancellor's Office on the Annual Financial and Budget Report (CCFS-311), the District ended the year with an Unrestricted General Fund balance of $20,812,353 or 14.6% of total expenditures and outgo. This reflects a $126,493 increase in fund balance from the prior year, based on the modified accrual basis of accounting. A portion of the ending fund balance is set aside to meet the Governing Board's minimum reserve level of 7% (or Chancellor's Office recommended reserve level of 5% of expenditures) for economic uncertainties. The balance above the 7% reserve level has been earmarked to address or partially address certain unfunded cost escalations in the coming years. The CCFS-311 report focuses on fund types rather than on the District as a whole.

MEASURE M (2006) $694 MILLION GENERAL OBLIGATION BOND

Palomar Community College District has been providing quality education to its service area residents for over 70 years. In August 2003, the College completed the comprehensive Educational and Facilities Master Plan 2022, containing the identified needs of the District and the community; these include: construction of new instructional and support buildings, modernization of existing buildings, infrastructure upgrades, equipping the District sites and facilities, and the development of two educational centers in Fallbrook and Rancho Bernardo. In November 2006 General Election, 57.9% of registered voters approved Measure M, a $694 million educational facilities bond measure. The total proposition is funded through the sale of several series of bonds. The bonds are general obligations of the District payable solely from the proceeds of *ad valorem* property taxes levied by the San Diego County Board. The amount of the *ad valorem* taxes to repay the bonds is determined by the relationship between the assessed valuation of taxable property within the District's jurisdiction and the amount of debt service due on the bonds in any year. As of June 30, 2020, the taxable properties within the District's jurisdiction have an assessed valuation of $133,716,010,228 for the upcoming 2020-21 assessment year (County of San Diego Assessor's Office, 6/30/20).

As a governmental unit, the District's financing activities and choices are bound by federal and State restrictions. An Independent Citizens' Oversight Committee (ICOC) reviews the expenditure of funds to ensure that bond proceeds are expended only for projects to be conducted in completion of the Master Plan 2022.

The District has issued 100% of the $694 million in bond authorization. The first of four issuances in the amount of $160 million took place in May 2007; the second issuance in the amount of $175 million was made in November 2010; and the third issuance in the amount of $220 million took place in April 2015. The fourth and final series was issued at $139 million in April 2017.

Moody's Investors Service assigned a "Aa2 with a Negative Outlook" to Palomar Community College District in May 2020. This rating is based on the District's adequate financial profile with fiscal year 2019-20 projected results exceeding budgeted amounts driven by receipts of one-time revenue and expenditure savings. The rating reflects the District's "extremely large, affluent, northern San Diego tax base which will continue to see moderate ongoing growth driven by new development and housing turnover." These strengths are contrasted by the District's very high Other Post-employment Benefits (OPEB) obligations compared to peer districts. Factors that could lead to upward movement in rating include the management's ability to produce structurally balanced operations through continuous alignment of ongoing revenue with expenditures, sustained improvement in reserves, and the implementation of a permanent executive team.

S&P Global Ratings assigned its "AA" long-term rating to Palomar Community College District in April 2017 and reaffirmed the same rating with a Stable Outlook in October 2020. The District's diverse economic base, coupled with strong to good income levels, improved financial performance based on fiscal year 2020 closing projections, solid reserves, and access to alternate liquidity were the key drivers for this rating action.

Both ratings reflect no material credit risks for the District resulting from the COVID-19 outbreak and public safety concerns. On March 19, 2020, the Governor issued a Stay Home Order to all California residents, except for critical infrastructure sectors, to protect the general health of the community. The District's transition to virtual instruction for the remainder of the spring 2020 and summer 2020 semesters proceeded relatively seamlessly. The District received approximately $9.1 million in federal aid pursuant to the Coronavirus Aid, Recovery, and Economic Security (CARES) Act as well as approximately $1.08 million in COVID-19 State aid.

OVERVIEW OF THE FINANCIAL STATEMENTS

Palomar Community College District's financial statements are presented in accordance with the 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 statements allow for the presentation of financial activity and results of operations which focus on the District as a whole. The entity-wide financial statements present the overall status of operations whereby all of the District's overall financial activities are consolidated into one total rather than the traditional presentation by individual fund groups. This annual report consists of three parts: MD&A (this section), the basic financial statements, and supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The financial position is presented as of June 30, 2020 and 2019 and consists of three primary statements:

- The Statements of Net Position
- The Statements of Revenues, Expenses, and Changes in Net Position
- The Statements of Cash Flows

THE DISTRICT AS A WHOLE

STATEMENT OF NET POSITION

The focus of the Statement of Net Position is to illustrate the financial position of the District at a point in time. The Statement of Net Position combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term liabilities. This statement 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 method 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, 2020 and 2019.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the District.

GASB Concepts Statement No. 4 – *Elements of Financial Statements* defines deferred outflows of resources, deferred inflows of resources, and net position. 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.

Changes in 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.

Current cash and investments consist mainly of unrestricted and restricted cash invested primarily in the San Diego County investment pool. As provided for by California Education Code Section 41001, a significant portion of the District's cash balances, totaling $235,733,257, is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Interest earned on such pooled cash balances is allocated proportionately to all funds in the pool. The District's cash and investments decreased from $371,580,026 to $338,497,973 primarily due to increases in operating expenses, ongoing capital improvements and debt service payments, purchases, acquisitions, and state deferrals.

Accounts receivables primarily represent funding owed to the District by students, by federal and State sources for grant and entitlement programs, and by local sources for all other purposes. The District provides for an allowance for uncollectible accounts as an estimation of amounts it may not receive. The total owed to the District by all sources is $22,265,649. Other current assets include prepayments to vendors for goods or services that will not be received until the following fiscal year.

Capital assets represent the District's investment in land, site improvements, buildings, building improvements, construction in progress, and equipment, less the cost of accumulated depreciation. Capital assets are recorded at cost on the date of acquisition or fair value at the date of donation. The District's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 50 years for buildings, 30 years for building improvements or additions, 10 years for land improvements, 8 years for equipment, 7 years for library books, and 3 years for technology equipment. Land and construction in progress are considered non-depreciable capital assets; therefore no depreciation is calculated. As of June 30, 2020, the District recorded $610,502,328 invested in capital assets, $97,728,069 in accumulated depreciation, netting $512,774,259 recorded in net capital assets. Capital assets increased by a net value of $531,089 from the previous year.

Changes in Deferred Outflows of Resources

Deferred outflows of resources include amounts associated with the refunding of debt, other post-employment benefits (OPEB), and pension contributions made during the fiscal year that are removed from expenses. The net decrease of $4,057,646 from last year reflects increases in statutory rates for pension contributions, the contributions subsequent to the measurement date associated with the OPEB plan of the District and the amortization of the general obligation bond refunding.

Changes in Liabilities

The District's total liabilities consist of current liabilities and long-term liabilities. Current liabilities represent amounts owed to vendors for services and goods received during fiscal year 2018-2019 for which payment would not be made until fiscal year 2019-2020. Also included are accrued payroll and outstanding liabilities and related interest payable. Unearned revenue includes deferred enrollment fees for the 2020-21 academic year and advances from federal, state, and local program funds received but not yet earned as of June 30, 2020. Most grant funds are earned when expended (up to the grant amount awarded). The District's current liabilities at June 30, 2020, were $5,681,918 less than at June 30, 2019.

The District's long-term liabilities are debt with maturities of more than one year, consisting of $839,726,412 in voter-approved general obligation and lease revenue bonds, $150,845,469 in aggregate net pension liability resulting from GASB 68 - *Accounting and Financial Reporting for Pensions*; $82,327,332 in net OPEB liability resulting from GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and $4,780,731 in other liabilities such as compensated absences and load banking. At year end, the District has an aggregate net pension liability of $150,845,469 versus $141,232,835 last year, an increase of $9,612,634 or 0.07%. The General Obligation Bonds and Lease Revenue Bonds decreased by $2,986,725. The General Obligation Bonds are repaid through tax assessments on property located within the District boundaries and are not a direct obligation of the District's general fund. The net OPEB liability decreased by $16,154,852. At June 30, 2020, the District recorded $1,077,679,944 in long term liabilities, of which $7,800,000 is due within one year.

Changes in Deferred Inflows of Resources

Deferred inflows of resources represent OPEB related costs and pension costs, resulting from net change in proportionate share of net pension liability, the difference between projected and actual earnings on the pension plan investments, differences between expected and actual experience in the measurement of the total pension liability and changes of assumptions related to pension liability. This amount is deferred and amortized over five to seven years. Deferred inflows increased by $5,143,703.

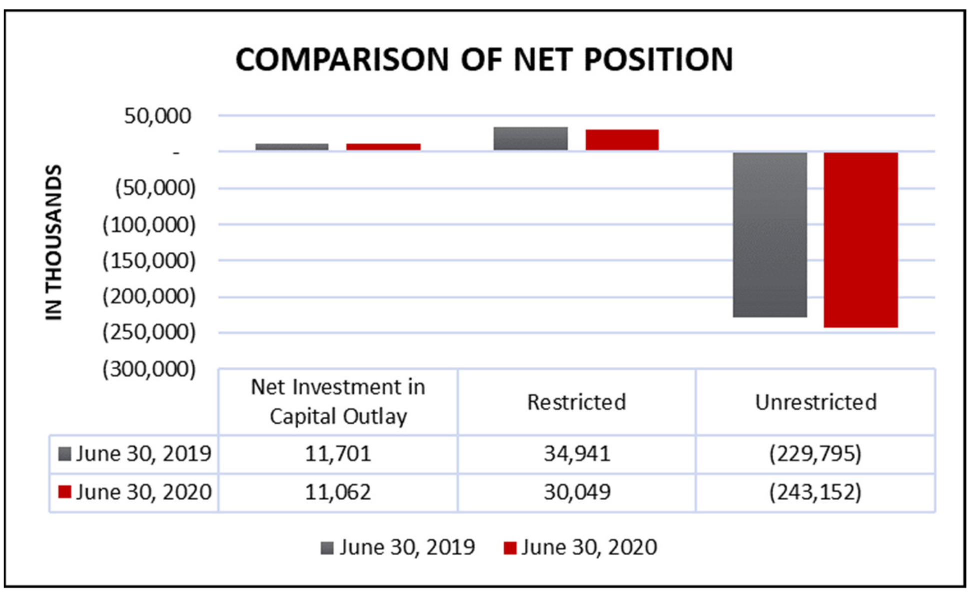
Changes in Net Position

Net position is an accounting concept defined as total assets and deferred outflows less total liabilities and deferred inflows. Changes in 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 overall change in net position is an indicator of whether the financial condition has improved or worsened during the year. Overall the District's expenditures exceeded revenues resulting in a decrease in net position of $18,889,009, decreasing from $(183,153,075) to $(202,042,084). 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 net amount invested in property, plant, and equipment owned by the District (capital assets less net of accumulated depreciation and outstanding capital-related debt) and deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets, or related liabilities. The Net Investment in Capital Assets of $11,061,532 reflects increased spending on capital assets and the impact of GASB Statements No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65 – *Items Previously Reported as Assets and Liabilities*. These funds are not liquid resources that can be used to fund ongoing operations.

Restricted Net Position represents funds that are constrained to a particular purpose and limited in terms of time for which the funds can be spent. It is subject to externally imposed restrictions governing their use. The Restricted Net Position of $30,048,742 consists of restricted assets less liabilities and deferred inflows of resources related to those assets. When an expense is incurred that can be paid using either restricted or unrestricted resources, the District first applies the expense toward restricted resources, and then towards unrestricted resources.

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. The Unrestricted Net Position decreased by $(13,357,294), decreasing from $(229,795,064) to $(243,152,358). reflects the impact of GASB Statements No. 68 - *Accounting and Financial Reporting for Pensions* and No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which require governmental agencies to report their proportional shares of net pension liabilities, resulting in a negative net position for the District. GASB 68 and 71 result in entries and adjustments regarding pension liabilities for reporting purposes only. Without these entries and adjustments, the financial picture would show that the District has reserves that meet current obligations.



STATEMENT OF NET POSITION FOR FISCAL YEARS 2020 AND 2019

A summarized comparison of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2020 and 2019, is presented below:

THE DISTRICT AS A WHOLE

Net Position

	2020	2019	Change
Assets			
Current Assets			
Cash and investments	$ 338,497,973	$ 371,580,026	$ (33,082,053)
Accounts receivable (net)	22,265,649	12,851,145	9,414,504
Prepaid expenses	749,806	890,264	(140,458)
Total current assets	361,513,428	385,321,435	(23,808,007)
Capital Assets (net)	512,774,259	512,243,170	531,089
Total assets	874,287,687	897,564,605	(23,276,918)
Deferred Outflows of Resources			
Deferred charges on refunding	6,231,377	6,754,290	(522,913)
Deferred outflows of resources related to OPEB	88,198	2,956,307	(2,868,109)
Deferred outflows of resources related to pensions	41,326,050	41,992,674	(666,624)
Total deferred outflows of resources	47,645,625	51,703,271	(4,057,646)
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	21,914,285	24,050,354	(2,136,069)
Unearned revenue	9,431,701	10,508,424	(1,076,723)
Current portion of long-term liabilities	7,800,000	10,269,126	(2,469,126)
Total current liabilities	39,145,986	44,827,904	(5,681,918)
Long-Term Liabilities	1,069,879,944	1,077,787,284	(7,907,340)
Total liabilities	1,109,025,930	1,122,615,188	(13,589,258)
Deferred Inflows of Resources			
Deferred inflows of resources related to OPEB	5,839,139	-	5,839,139
Deferred inflows of resources related to pensions	9,110,327	9,805,763	(695,436)
Total deferred inflows of resources	14,949,466	9,805,763	5,143,703
Net Position			
Net investment in capital assets	11,061,532	11,701,269	(639,737)
Restricted	30,048,742	34,940,720	(4,891,978)
Unrestricted deficit	(243,152,358)	(229,795,064)	(13,357,294)
Total net position	$ (202,042,084)	$ (183,153,075)	$ (18,889,009)

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. It reflects revenues and expenses recognized as of June 30, 2020 and 2019, and links the results of operations back to the Statement of Net Position by reconciling the beginning of the year net position to the end of the year net position amount.

The revenues and expenses are categorized as operating, nonoperating, and other, are reported by natural and functional classification. Revenues for the year totaled $199,519,634 and expenditures totaled $218,408,643 resulting in an overall decrease in net position by $18,889,009.

Revenues

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating revenues are generated by tuition and fees, such as enrollment fees, non-resident tuition, health fees, parking fees, other-related student fees, grants and contracts, and various auxiliary sales and charges. Tuition and fee revenue is reported net of discounts for tuition paid by various federal, State, and local grants, including those associated with the Title IV Higher Education Administration Program and State-mandated exemptions against tuition. Regular enrollment fees are set by the State for all community colleges and were $46 per unit. Tuition and fee revenue (net) decreased by $2,048,115 in 2020 primarily due to enrollment decline, increase in emergency grants awarded to students, and the effect of campus locations being fully or partially closed due to the pandemic. Auxiliary sales and charges are primarily bookstore and vending commissions.

State general apportionment, property taxes, grants and contracts, sales taxes and other revenues, and investment income, while budgeted for operations, are prescribed by GASB as nonoperating revenues. Thus, operating expenses exceed operating revenues, resulting in an operating loss of $164,999,017.

State apportionments decreased in 2019-20 by $702,805 primarily due to decline in reported Full-time Equivalent Students (FTES) and increase in local property taxes. FTES declined from 17,950 in 2018-19 to 17,558 (Second Principal P2) in 2019-20. Local property taxes increased by $6,203,431 as the taxable assessed value of properties within the District boundaries increased by 5.09% from the prior year (California Municipal Statistics, Inc.). The amount received by the District for property taxes is deducted from the revenue limit calculated by the State for the District.

Expenses

Operating expenditures decreased by $7,413,580 from the prior year. The vast majority of operating expenses are for the salaries and benefits of academic, classified, and administrative personnel, comprising of $151,001,842 or 69% of the total operating expenses from a District-wide full accrual perspective. This amount includes the activity from all District funds. The $8,586,347 decrease in salaries and benefits was primarily due to employee retirements and separations and the full year effect of limited hiring of new and replacement positions. Supplies, maintenance, and equipment expenses are $5,129,805 less than the prior year due to decrease in operating expenses, closure of facilities, and transition to remote operations. Student financial aid increased by $4,187,467. The $2,115,105 increase in depreciation is due to the continued completion, capitalization, and subsequent depreciation of projects primarily resulting from the District's General Obligation Bond program.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

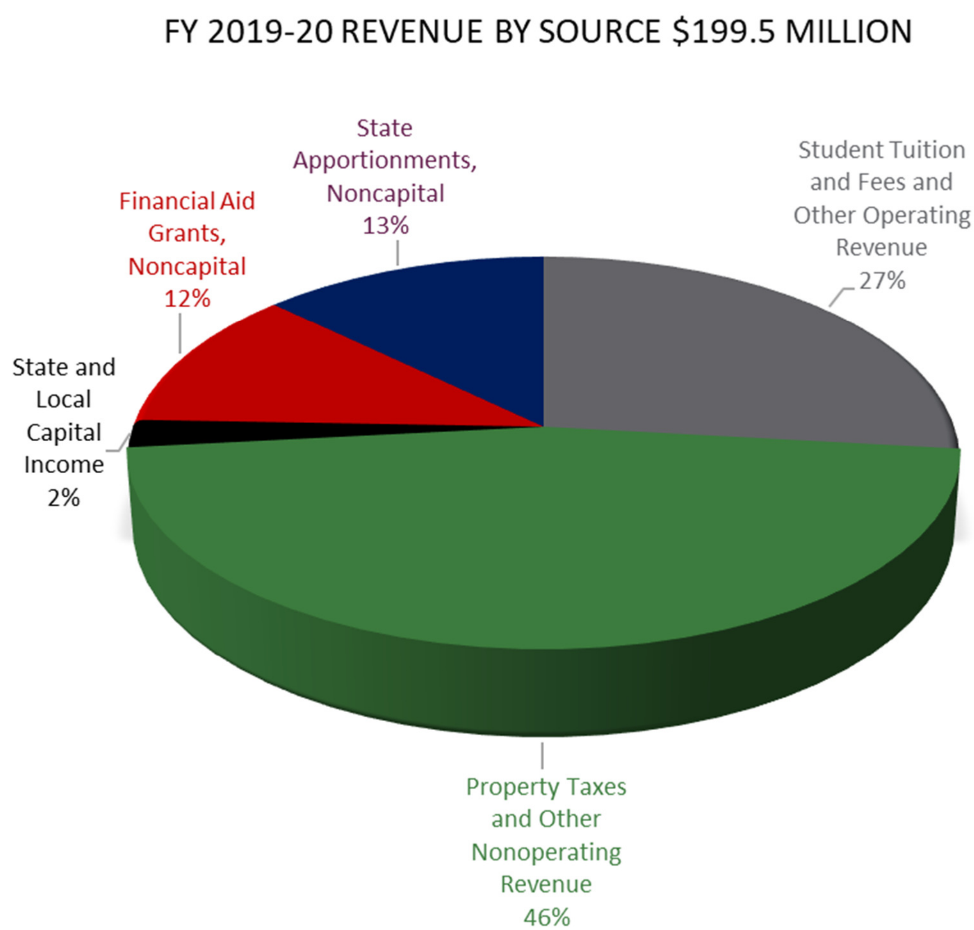
A summarized comparison of the District's revenues, expenses, and changes in net position for the years ended June 30, 2020 and 2019, is presented below:

Operating Results for Fiscal Years 2020 and 2019

	2020	2019	Change
Operating Revenues			
Tuition and fees, net	$ 14,121,978	$ 16,170,093	$ (2,048,115)
Grants and contracts, noncapital	39,101,779	43,963,014	(4,861,235)
Other operating revenues	185,869	270,179	(84,310)
Total operating revenues	53,409,626	60,403,286	(6,993,660)
Operating Expenses			
Salaries and benefits	151,001,842	159,588,189	(8,586,347)
Supplies, maintenance, and equipment	28,577,678	33,707,483	(5,129,805)
Student financial aid	26,650,459	22,462,992	4,187,467
Depreciation	12,178,664	10,063,559	2,115,105
Total operating expenses	218,408,643	225,822,223	(7,413,580)
Loss on Operations	(164,999,017)	(165,418,937)	419,920
Nonoperating Revenues (Expenses)			
State apportionments, noncapital	25,561,604	26,264,409	(702,805)
Property taxes	116,142,399	109,938,968	6,203,431
Financial aid grants, noncapital	23,177,445	19,919,330	3,258,115
State taxes and other revenues	4,952,088	6,126,082	(1,173,994)
Interest expense on capital related debt	(37,877,767)	(39,178,255)	1,300,488
Investment income	7,135,745	9,480,881	(2,345,136)
Other nonoperating revenues (expenses), net	2,549,555	1,336,453	1,213,102
Total nonoperating revenue (expenses)	141,641,069	133,887,868	7,753,201
Other Revenues			
State and local capital income	4,468,939	4,152,333	316,606
Change in Net Position	$ (18,889,009)	$ (27,378,736)	$ 8,489,727

Revenue by Source

All revenues, both operating and non-operating, are presented in the chart below:



Expenses by Functional Classification – All Funds

The following represents the fiscal year 2020 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	$ 46,251,612	$ 24,381,321	$ 2,217,509	$ 2,153,115	$ -	$ -	$ 75,003,557
Academic support	16,217,114	5,547,000	4,604,793	1,521,754	-	-	27,890,661
Student services	14,976,279	6,909,125	2,274,628	81,917	-	-	24,241,949
Plant operations and maintenance	5,003,490	3,363,630	4,310,658	703,842	-	-	13,381,620
Instructional support services	12,795,638	10,138,775	5,201,320	1,831,023	-	-	29,966,756
Community services and economic development	211,320	97,885	5,779	-	-	-	314,984
Ancillary services and auxiliary operations	3,511,360	1,597,293	647,113	2,787	-	-	5,758,553
Student aid	-	-	-	-	26,650,459	-	26,650,459
Physical property and related acquisitions	-	-	1,820,340	1,201,100	-	-	3,021,440
Unallocated depreciation	-	-	-	-	-	12,178,664	12,178,664
Total	$ 98,966,813	$ 52,035,029	$ 21,082,140	$ 7,495,538	$ 26,650,459	$ 12,178,664	$ 218,408,643

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 is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. Cash receipts from operating activities are from student tuition and from Federal, State, and local grants. The primary operating expense of the District is the payment of salaries and benefits to faculty, administrators, and classified staff.

The second part of the Cash Flow details cash received for nonoperating, non-investing, and noncapital financing purposes. General apportionments, property taxes, and Federal and State grants and contracts are the primary sources in noncapital financing activities.

The third part shows cash flows from capital and related financing activities. This part deals with the cash used for acquisition and construction of capital and related items.

The fourth part provides information on investing activities and the amount of interest received. Cash from investing activities consists of interest earned on cash in bank and cash invested through the San Diego County Treasury.

The last part reconciles the net cash provided by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

The Statement of Cash Flows for the fiscal years ended June 30, 2020 and 2019, is presented below:

	2020	2019	Change
Cash Provided by (used in)			
Operating activities	$ (159,226,336)	$ (146,550,567)	$ (12,675,769)
Noncapital financing activities	138,193,812	135,234,714	2,959,098
Capital financing activities	(16,676,377)	(29,811,508)	13,135,131
Investing activities	6,904,444	6,634,134	270,310
Net Increase (Decrease) in Cash and Cash Equivalents	(30,804,457)	(34,493,227)	3,688,770
Cash and Cash Equivalents, Beginning of Year	266,898,907	301,392,134	(34,493,227)
Cash and Cash Equivalents, End of Year	$ 236,094,450	$ 266,898,907	$ (30,804,457)

CAPITAL ASSET AND LONG-TERM LIABILITIES ADMINISTRATION

Capital Assets

As of June 30, 2020, the District had in place $512,774,259 invested in net capital assets, net of accumulated depreciation of $97,728,069. 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 represents the ongoing expenditures of the long-term capital improvement projects related to the District's Master Plan 2022. As individual projects are completed and placed into service, they are listed as capital assets and depreciated accordingly.

As of June 30, 2020, the District had commitments with respect to the following unfinished capital projects:

Library and Learning Resource Center

Fallbrook Education Center

Note 6 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:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Land and construction in progress	$ 73,304,037	$ 12,556,352	$ -	$ 85,860,389
Buildings and improvements	501,343,135	-	-	501,343,135
Furniture and equipment	23,113,719	153,401	(31,684)	23,298,804
Subtotal	597,760,891	12,709,753	(31,684)	610,502,328
Accumulated depreciation	(85,517,721)	(12,178,664)	31,684	(97,728,069)
	$ 512,243,170	$ 531,089	$ -	$ 512,774,259

Long-Term Liabilities

As of June 30, 2020, the District had $1,077,679,944 in long-term liabilities primarily made up of general obligation and lease revenue bonds, aggregate pension liability and net OPEB liability. Note 10 to the financial statements provides additional information on long-term liabilities. A summary of long-term liabilities is presented below:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
General obligation and lease revenue bonds	$ 842,713,137	$ 9,477,861	$ (12,464,586)	$ 839,726,412
Aggregate net pension liability	141,232,835	9,755,006	(142,372)	150,845,469
Net OPEB liability	98,482,184	-	(16,154,852)	82,327,332
Other obligations	5,628,254	605,935	(1,453,458)	4,780,731
Total long-term liabilities	$ 1,088,056,410	$ 19,838,802	$ (30,215,268)	$ 1,077,679,944
Amount due within one year				$ 7,800,000

DISTRICT FIDUCIARY RESPONSIBILITY

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are reported separately in the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. Net position of fiduciary activities is excluded from the District's net position because the District cannot use fiduciary assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The financial position of the District is directly affected by the overall economic, budgetary, and fiscal condition of the State of California, any legislation that impacts the funding of all community colleges in the state, and local economies. According to the California Fiscal Outlook Report released by the Legislative Analyst's Office (LAO) on November 18, 2020, California faces a more positive outlook than anticipated in the 2020 Budget Act. Collections from the State's three largest taxes were 22% ahead of budget act assumptions. Similarly, the Department of Finance' November Bulletin also reports that the state has accrued $11.3 billion more in revenue than originally assumed in the 2020 Budget Act. However, the State faces an operating deficit in 2021-22 with revenues from the big three taxes growing at less than 1% while general fund expenditures grow an at an average 4.4% per year. The Governor's January Budget Proposal for the fiscal year 2021-22 is focused on restoring fiscal resilience and developing a robust COVID-19 response, prioritizing activities that mitigate the adverse economic and health consequences of the public health emergency.

The minimum funding level for schools and community colleges required by Proposition 98 is projected to grow to $85 billion in 2021-22. Given total community colleges deferrals of $1.45 billion, the Proposition 98 rebound is only enough to retire two-thirds of the deferrals. The State continues to operate an education budget deficit as funding is still below pre-pandemic levels. Although Proposition 98 sets the overall funding level, the District's Total Computational Revenue (TCR) is expected to remain flat for subsequent years. The First Principal (P1) Attendance Report for 2020-21 illustrates the District's Full-Time Equivalent Students (FTES) has declined further over the past year by 3,246 FTES to 15,214 FTES, down from 18,469 FTES at 2019-20 P1 (pre-pandemic). However, the SCFF contains a hold harmless provision which keeps the District funded at the 2017-18 TCR level plus the 2018-19 COLA of 2.71% and 2019-20 COLA of 3.26% through 2023-24. During emergency conditions, State regulations also provide for an "emergency conditions allowance," funding that protects the District from material decreases in FTES as a result of the emergency.

Growth in District's expenses is driven by increases in salary schedules that have been set through collective bargaining agreements. Growing pension costs and OPEB obligations continue to be a primary concern for the District. Contribution rates for CalPERS will increase 3% to 23% in 2021-22. It is important to note that after the one-time CalSTRS and CalPERS rate relief expires in 2022-23, District pension costs are expected to grow significantly. For 2022-23, the contribution rates currently are projected to grow more than 2% of pay for CalSTRS and nearly 4% of pay for CalPERS.

As the COVID-19 pandemic continues to evolve, the economic and other actions that may need to be taken by the government to contain the outbreak and treat its impact are uncertain. The ultimate impact of COVID-19 on the District's operations and finances is unknown. Remote learning for classes will continue through fiscal year 2020-21, with the exception of certain lab classes and certain classes offered through the police and fire academies and emergency medical education program. The District actively monitors and follows public health guidelines for the reopening of institutions of higher education. Implementation of the guidelines as part of a phased reopening will depend on local conditions, including the level of COVID-19 infections and hospitalization rates for a minimum of 14 days, availability of testing resources of the County, and preparedness of the County's healthcare system. As guidance is implemented, Palomar will continue to consult with public health officials and other authorities.

The District continues to adjust and explore innovative ideas and approaches to meet the unique needs and circumstances of our students and the local community. Budget and financial policies, approved by the Governing Board, provide guidance for sufficient planning of resources, maintaining adequate reserve levels, and determining how efficiently and effectively we will carry out our mission.

Other than the items above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Prudent fiscal management practices will remain in place to ensure the District has adequate reserves to sustain operations and ensure student success. Management will maintain a close watch over resources to maintain the ability to react to internal and external issues if and when they arise.

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, Attn: Finance and Administrative Services, 1140 West Mission Road, San Marcos, California, 92069.

ACKNOWLEDGMENTS

We wish to thank the members of the Governing Board for their continued guidance and support in planning and conducting the financial operations of the District in a highly responsible and progressive manner. The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire Fiscal Services staff. Appreciation is expressed to the external auditors, Eide Bailly, LLP, for the contributions made in preparation and timely completion of the audit.

OFFICIALS ISSUING THE REPORT

Ambur Borth, Assistant Superintendent, Finance and Administrative Services
Carmen Coniglio, Senior Director, Fiscal Services

Assets	
Cash and cash equivalents	$ 1,045,790
Investments	337,452,183
Accounts receivable	17,541,238
Student receivable, net	4,713,582
Due from fiduciary funds	10,829
Prepaid expenses	749,806
Capital assets	
Nondepreciable capital assets	85,860,389
Depreciable capital assets, net of depreciation	426,913,870
Total capital assets	512,774,259
Total assets	874,287,687
Deferred Outflows of Resources	
Deferred charges on refunding	6,231,377
Deferred outflows of resources related to other postemployment benefits (OPEB)	88,198
Deferred outflows of resources related to pensions	41,326,050
Total deferred outflows of resources	47,645,625
Liabilities	
Accounts payable	10,223,191
Accrued interest payable	11,691,094
Unearned revenue	9,431,701
Long-term liabilities	
Long-term liabilities other than OPEB and pensions, due within one year	7,800,000
Long-term liabilities other than OPEB and pensions, due in more than one year	836,707,143
Net OPEB liability	82,327,332
Aggregate net pension liability	150,845,469
Total liabilities	1,109,025,930
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	5,839,139
Deferred inflows of resources related to pensions	9,110,327
Total deferred inflows of resources	14,949,466
Net Position	
Net investment in capital assets	11,061,532
Restricted for	
Debt service	11,218,499
Capital projects	12,699,067
Educational programs	6,131,176
Unrestricted deficit	(243,152,358)
Total net position	$ (202,042,084)

Operating Revenues	
Student tuition and fees	$ 24,036,956
Less: scholarship discount and allowance	(9,914,978)
Net tuition and fees	14,121,978
Grants and contracts, noncapital	
Federal	8,986,736
State	28,187,977
Local	1,927,066
Total grants and contracts, noncapital	39,101,779
Other operating revenues	185,869
Total operating revenues	53,409,626
Operating Expenses	
Salaries	98,966,813
Employee benefits	52,035,029
Supplies, materials, and other operating expenses and services	21,082,140
Student financial aid	26,650,459
Equipment, maintenance, and repairs	7,495,538
Depreciation	12,178,664
Total operating expenses	218,408,643
Operating loss	(164,999,017)
Nonoperating Revenues (Expenses)	
State apportionments, noncapital	25,561,604
Local property taxes, levied for general purposes	84,703,003
Taxes levied for other specific purposes	31,439,396
Federal financial aid grants, noncapital	20,952,926
State financial aid grants, noncapital	2,224,519
State taxes and other revenues	4,952,088
Investment income	4,626,848
Interest expense on capital related debt	(37,877,767)
Investment income on capital asset-related debt	2,508,897
Transfer from fiduciary funds	193,212
Transfer to fiduciary funds	(30,000)
Other nonoperating revenue	2,386,343
Total nonoperating revenues (expenses)	141,641,069
Loss before other revenues	(23,357,948)
Other Revenues	
State revenues, capital	217,936
Local revenues, capital	4,251,003
Total other revenues	4,468,939
Change in Net Position	(18,889,009)
Net Position, Beginning of Year	(183,153,075)
Net Position, End of Year	$ (202,042,084)

See Notes to Financial Statements

Cash Flows from Operating Activities	
Tuition and fees	$ 13,821,054
Federal and state grants and contracts	28,040,794
Other operating receipts	185,869
Payments to or on behalf of employees	(149,764,833)
Payments to vendors for supplies and services	(24,858,761)
Payments to students for scholarships and grants	(26,650,459)
Net Cash Flows from Operating Activities	(159,226,336)
Cash Flows from Noncapital Financing Activities	
State apportionments	21,941,039
Federal and State financial aid grants	23,177,445
Property taxes - nondebt related	84,703,003
State taxes and other revenues	4,952,088
Other nonoperating	3,420,237
Net Cash Flows from Noncapital Financing Activities	138,193,812
Cash Flows from Capital Financing Activities	
Purchase of capital assets	(14,671,284)
Property taxes - related to capital debt	35,908,335
Principal paid on capital debt	(9,000,000)
Interest paid on capital debt	(31,422,325)
Interest received on capital asset-related debt	2,508,897
Net Cash Flows from Capital Financing Activities	(16,676,377)
Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	2,277,596
Interest received from investments	4,626,848
Net Cash Flows from Investing Activities	6,904,444
Net Change in Cash and Cash Equivalents	(30,804,457)
Cash and Cash Equivalents, Beginning of Year	266,898,907
Cash and Cash Equivalents, End of Year	$ 236,094,450

Reconciliation of net operating loss to net cash flows from operating activities	
Operating loss	$ (164,999,017)
Adjustments to reconcile operating loss to net cash flows from operating activities	
Depreciation expense	12,178,664
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Receivables, net	(10,285,186)
Prepaid expenses	140,458
Accounts payable and accrued liabilities	3,526,773
Unearned revenue	(1,076,723)
Deferred outflows of resources related to OPEB	2,868,109
Deferred outflows of resources related to pensions	666,624
Aggregate net pension liability	9,612,634
Net OPEB liability	(16,154,852)
PARS supplemental early retirement obligation	(1,269,126)
Load banking	54,288
Compensated absences	367,315
Deferred inflows of resources related to OPEB	5,839,139
Deferred inflows of resources related to pensions	(695,436)
Total adjustments	5,772,681
Net Cash Flows from Operating Activities	$ (159,226,336)

Cash and Cash Equivalents Consist of the Following	
Cash in banks	$ 1,045,790
Cash in county treasury	235,048,660
Total cash and cash equivalents	$ 236,094,450

Noncash Transactions	
Amortization of deferred charges on refunding	$ 522,913
Amortization of debt premiums	$ 3,464,586
Accretion of interest on capital appreciation bonds	$ 9,477,861

	Retiree OPEB Trust	Other Trusts
Assets		
Cash and cash equivalents	$ -	$ 192,097
Investments	7,392,902	684,597
Accounts receivable	-	2,889
Student receivable	-	74,313
Total assets	7,392,902	953,896
Liabilities		
Accounts payable	-	33,993
Due to primary government	-	10,829
Unearned revenue	-	89,429
Total liabilities	-	134,251
Net Position		
Restricted for postemployment benefits other than pensions	7,392,902	-
Unrestricted	-	819,645
Total net position	$ 7,392,902	$ 819,645

	Retiree OPEB Trust	Other Trusts
Additions		
District contributions	$ 5,468,447	$ -
Local revenues	318,246	954,628
Transfer from primary government	-	30,000
Total additions	5,786,693	984,628
Deductions		
Benefit payments	5,468,447	-
Books and supplies	-	10,000
Services and operating expenditures	14,617	48,589
Other uses - student payments	-	1,854,447
Transfer to primary government	-	193,212
Total deductions	5,483,064	2,106,248
Change in Net Position	303,629	(1,121,620)
Net Position, Beginning of Year	7,089,273	1,941,265
Net Position, End of Year	$ 7,392,902	$ 819,645

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, three education centers, and five outreach 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 is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

Note 2 - Summary of Significant Accounting Policies

Financial Reporting Entity

The District has adopted policies to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a “direct benefit”, the “environment and ability to access/influence reporting”, and the “significance” criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the District.

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.

Basis of Accounting - Measurement Focus 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, No. 39, and No. 61. This presentation provides a comprehensive government-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements. 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.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. For the District, operating revenues consist primarily of student fees and noncapital grants and contracts.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, Federal and State grants, and donations. Property tax revenue is recognized in the fiscal year 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. Revenue from Federal and State grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

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 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 cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with the County treasury for purposes of the Statement of Cash Flows.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

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 has recorded an allowance for uncollectible accounts related to student receivables. This allowance is based upon management's estimates and analysis. The allowance was estimated at $2,228,083 for the year ended June 30, 2020.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

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

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide financial statements.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid within the fund from which the employees who have accumulated the leave are paid. The District also participates in "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period. The liability for this benefit is reported on the government-wide financial statements.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

Debt Premiums

Debt premiums are amortized over the life of the bonds using the straight-line method, which approximates the effective interest 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 deferred charges on refunding of debt, OPEB related items, and pension related items. The deferred charges on refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 OPEB and pension related items.

Pensions

For purposes of measuring the net pension liability, 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 (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. The aggregate net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Unearned Revenue

Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized. Unearned revenue primarily 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, net OPEB liability, and the aggregate net pension liability with maturities greater than one year.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position related to net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the 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 net position is available. The government-wide financial statements report $30,048,742 of restricted net position, and the fiduciary fund financial statements report $7,392,902 of restricted net position.

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and No. 35. Classifications are as follows:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances, Federal, State, and local grants and contracts, and other operating revenues.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as State apportionments, property taxes, investment income, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and No. 35.

Classification of Expenses - Nearly all of the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

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. When known and measurable, these recalculations and corrections are accrued in the current year as of June 30.

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.

Scholarships, Discounts, and Allowances

Student tuition and fee revenue is reported net of scholarships, discounts, and allowances. Fee waivers approved by the Board of Governors are included within the scholarships, discounts, and allowances 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.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, Federal Supplemental Educational Opportunity Grants (FSEOG), 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

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 May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

The provisions of this Statement have been implemented as of June 30, 2020, with the exception of Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The District has already implemented these standards as of June 30, 2020.

New Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

As a result of the implementation of GASB No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

As a result of the implementation of GASB No. 95, the requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100% equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100% equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

As a result of the implementation of GASB No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the District's financial statements have not yet been determined.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

As a result of the implementation of GASB No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reporting
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of 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 67 and 68, as amended*, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition

- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

As a result of the implementation of GASB No. 95, the requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

As a result of the implementation of GASB No. 95, the removal of LIBOR as an appropriate benchmark interest rate (paragraph 11b) is effective for reporting periods ending after December 31, 2021. Paragraph 13 and 14 related to lease modifications is effective for reporting periods beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The effects of this change on the District's financial statements have not yet been determined.

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

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the 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 as of June 30, 2020, consist of the following:

Primary government	$ 338,497,973
Fiduciary funds	8,269,596
Total deposits and investments	$ 346,767,569

Cash on hand and in banks	$ 1,216,775
Cash in revolving	21,112
Cash in County Treasury	235,733,257
Investments	109,796,425
Total deposits and investments	$ 346,767,569

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 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, US Treasury Bonds, and a Master Trust.

Investment Type	Reported Value	Weighted Average Days to Maturity
County of San Diego Investment Pool	$ 235,733,257	556
US Treasury Bonds	102,403,523	31
Master Trust	7,392,902	N/A
	$ 345,529,682	

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 June 30, 2020, the County of San Diego Investment Pool and US Treasury Bonds reflected an AAAf/S1 and Aaa ratings by Fitch and Moody's, respectively. The District's investment in the Master Trust is not required to be rated, nor has it been rated.

Custodial Credit Risk – Deposits and Investments

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code 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% 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% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2020, the District's bank balance of $3,039,738 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.

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. As of June 30, 2020, the District's investment balance of $7,392,902 was exposed to custodial credit risk because it was uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

Note 4 - Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

The District's fair value measurements are as follows at June 30, 2020:

Investment Type	Reported Amount	Fair Value Measurements Using Level 1 Inputs	Fair Value Measurements Using Level 3 Inputs
US Treasury Bonds	$ 102,403,523	$ 102,403,523	$ -
Master Trust	7,392,902	-	7,392,902
Total	$ 109,796,425	$ 102,403,523	$ 7,392,902

	Level 3 Inputs
Investments at Fair Value	
Balance at July 1, 2019	$ 7,089,273
Interest and investment income	318,246
Administrative fees	(14,617)
Balance at June 30, 2020	$ 7,392,902

All assets have been valued using a market approach, with quoted market prices.

Note 5 - Accounts Receivable

Accounts receivable at June 30, 2020, consisted of the following:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	$ 2,655,075	$ -
State Government		
Apportionment	9,492,365	-
Categorical aid	2,015,027	-
Lottery	937,986	-
Local Sources		
Property taxes	612,487	-
Interest	977,892	2,889
Other local sources	850,406	-
Total	$ 17,541,238	$ 2,889
Student receivables	$ 6,941,665	$ 74,313
Less: allowance for doubtful accounts	(2,228,083)	-
Total	$ 4,713,582	$ 74,313

Note 6 - Capital Assets

Capital asset activity for the District for the fiscal year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Capital Assets Not Being Depreciated				
Land	$ 63,134,087	$ -	$ -	$ 63,134,087
Construction in progress	10,090,900	12,556,352	-	22,647,252
Works of art	79,050	-	-	79,050
Total capital assets not being depreciated	73,304,037	12,556,352	-	85,860,389
Capital Assets Being Depreciated				
Land improvements	37,446,702	-	-	37,446,702
Buildings and improvements	463,896,433	-	-	463,896,433
Furniture and equipment	23,113,719	153,401	(31,684)	23,298,804
Total capital assets being depreciated	524,456,854	153,401	(31,684)	524,641,939
Total capital assets	597,760,891	12,709,753	(31,684)	610,502,328
Less Accumulated Depreciation				
Land improvements	18,189,505	1,762,235	-	19,951,740
Buildings and improvements	48,592,638	9,276,578	-	57,869,216
Furniture and equipment	18,735,578	1,139,851	(31,684)	19,907,113
Total accumulated depreciation	85,517,721	12,178,664	(31,684)	97,728,069
Net capital assets	$ 512,243,170	$ 531,089	$ -	$ 512,774,259

Depreciation expense for the year was $12,178,664.

Note 7 - Accounts Payable

Accounts payable at June 30, 2020, consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	$ 3,494,637	$ -
Apportionment	4,244,249	-
Construction	161,291	-
Other	2,323,014	33,993
Total	$ 10,223,191	$ 33,993

Note 8 - Unearned Revenue

Unearned revenue at June 30, 2020, consisted of the following:

	Primary Government	Fiduciary Funds
State categorical aid	$ 4,274,739	$ -
Enrollment fees	4,632,561	89,429
Other local	524,401	-
Total	$ 9,431,701	$ 89,429

Note 9 - 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 primary government 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, 2020, the fiduciary funds owed the primary government $10,829.

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 year ended June 30, 2020, the amount transferred to the primary government from the fiduciary funds amounted to $193,212, and the amount transferred to the fiduciary funds from the primary government amounted to $30,000.

Note 10 - Long-Term Liabilities other than OPEB and Pensions

Summary

The changes in the District's long-term liabilities other than OPEB and pensions during the 2020 fiscal year consisted of the following:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due in One Year
Bonds Payable					
General obligation bonds	$ 781,808,728	$ 9,477,861	$ (8,535,000)	$ 782,751,589	$ 7,685,000
Unamortized bond premiums	58,764,409	-	(3,464,586)	55,299,823	-
Lease revenue bonds	2,140,000	-	(465,000)	1,675,000	115,000
Total bonds	842,713,137	9,477,861	(12,464,586)	839,726,412	7,800,000
Other Liabilities					
Compensated absences	3,707,962	367,315	-	4,075,277	-
Load banking	651,166	238,620	(184,332)	705,454	-
PARS supplemental early retirement obligation	1,269,126	-	(1,269,126)	-	-
Total other liabilities	5,628,254	605,935	(1,453,458)	4,780,731	-
Total long-term liabilities	$ 848,341,391	$ 10,083,796	$ (13,918,044)	$ 844,507,143	$ 7,800,000

Description of Long-Term Liabilities

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 PARS supplemental early retirement liability was paid by the unrestricted general fund.

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 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% to 6.72%, depending on the maturity of the related bonds. Interest is payable semiannually on August 1 and February 1 of each year. During the 2016-2017 fiscal year, the District issued 2017 General Obligation Refunding (Crossover) Bonds. These bonds were issued to refund a portion of the remaining outstanding obligation of the District's General Obligation Bonds, Election 2006, Series B. Monies were placed in an escrow account in the District's name to pay a portion of the remaining balance of the bonds on the crossover date, August 1, 2020. The debt was not considered defeased, therefore, the outstanding balance remains the District's obligation until the crossover date. The outstanding principal balance of these bonds at June 30, 2020, was $157,011,589.

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%. Interest is payable semiannually on August 1 and February 1 of each year. During the 2016-2017 fiscal year, the District issued 2017 General Obligation Refunding (Crossover) Bonds. These bonds were issued to refund the remaining outstanding obligation of the District's General Obligation Bonds, Election 2006, Series B-1. Monies were placed in an escrow account in the District's name to pay the remaining balance of the bonds on the crossover date, August 1, 2020. The debt was not considered defeased, therefore, the outstanding balance remains the District's obligation until the crossover date. The outstanding principal balance of these bonds at June 30, 2020, 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% to 5.00%, 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, 2020, was $101,210,000.

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% to 5.00%, 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, 2020, was $205,225,000.

General Obligation Bonds, Election 2006, Series D

On April 27, 2017, the District issued General Obligation Bonds, Election 2006, Series A in the aggregate principal amount of $139,000,000. Bonds were issued with a final maturity date of August 1, 2046, and interest rates ranging from 3.25% to 5.00%, 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, 2020, was $134,035,000.

2017 General Obligation Refunding (Crossover) Bonds

On April 27, 2017, the District issued 2017 General Obligation Refunding (Crossover) Bonds in the aggregate principal amount of $101,770,000. Bonds were issued with a final maturity date of August 1, 2045, with an interest rate of 5.00%. Interest is paid semiannually on May 1 and November 1 of each year. These bonds were issued to refund a portion of the outstanding District's General Obligation Bonds, Election 2006, Series B and the remaining outstanding obligation of the District's General Obligation Bonds, Election 2006, Series B-1. Monies were placed in an escrow account in the District's name to pay the refunded bonds on the crossover date, August 1, 2020. The debt was not considered defeased, therefore, the outstanding balance related to the refunded bonds remains the District's obligation until the crossover date. The outstanding principal balance of these bonds at June 30, 2020, was $101,770,000. As of June 30, 2020, the amount that remains in the escrow account to satisfy the obligations on the crossover date of August 1, 2020, was $102,403,523.

Debt Maturity

General Obligation Bonds

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2019	Issued	Accretion	Redeemed	Bonds Outstanding June 30, 2020
2006 B	10/28/2010	8/1/2045	2.36%-6.72%	$ 91,498,901	$ 149,108,728	$ -	$ 9,477,861	$ (1,575,000)	$ 157,011,589
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	205,405,000	-	-	(180,000)	205,225,000
2006 D	4/27/2017	8/1/2046	3.25%-5.00%	139,000,000	136,100,000	-	-	(2,065,000)	134,035,000
Subtotal Election 2006					574,113,728	-	9,477,861	(3,820,000)	579,771,589
2015 Refunding	1/13/2015	5/1/2032	2.00%-5.00%	115,675,000	105,925,000	-	-	(4,715,000)	101,210,000
2017 Refunding	4/27/2017	8/1/2045	5.00%	101,770,000	101,770,000	-	-	-	101,770,000
Subtotal bonds outstanding					781,808,728	-	9,477,861	(8,535,000)	782,751,589
Premium on debt					58,764,409	-	-	(3,464,586)	55,299,823
Total general obligation bonds					$ 840,573,137	$ -	$ 9,477,861	$ (11,999,586)	$ 838,051,412

The Bonds mature through 2047 as follows:

Fiscal Year	Principal (Including accreted interest to date)	Unmatured Accreted Interest	Current Interest to Maturity	Total
2021	$ 7,645,395	$ 39,605	$ 31,026,765	$ 38,711,765
2022	8,785,530	274,470	30,743,315	39,803,315
2023	10,312,044	537,956	30,434,065	41,284,065
2024	11,659,454	865,546	30,067,065	42,592,065
2025	13,033,084	1,281,916	29,651,815	43,966,815
2026-2030	73,602,898	4,927,102	158,143,885	236,673,885
2031-2035	94,792,038	22,807,962	166,075,613	283,675,613
2036-2040	128,371,277	32,508,723	154,504,058	315,384,058
2041-2045	264,098,079	34,116,921	98,931,219	397,146,219
2046-2047	170,451,790	1,778,210	10,367,954	182,597,954
Total	$ 782,751,589	$ 99,138,411	$ 739,945,754	$ 1,621,835,754

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% to 5.625% 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	Current Interest to Maturity	Total
2021	$ 115,000	$ 89,100	$ 204,100
2022	120,000	83,350	203,350
2023	130,000	76,600	206,600
2024	135,000	69,288	204,288
2025	145,000	61,694	206,694
2026-2030	835,000	183,456	1,018,456
2031	195,000	9,994	204,994
Total	$ 1,675,000	$ 573,482	$ 2,248,482

Compensated Absences

At June 30, 2020, the liability for compensated absences was $4,075,277.

Load Banking

At June 30, 2020, the liability for load banking was $705,454.

Note 11 - Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2020, the District reported a net OPEB liability, deferred outflows of resources and deferred inflows of resources, and OPEB expense of $82,327,332, $88,198, $5,839,139 and $7,447,604, respectively.

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses.

Management of the plan is vested in the District management. Management of the trustee assets is vested with the Retiree Health Benefit Program Trust.

Plan Membership

At June 30, 2020, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	591
Active employees	702
	1,293

Retiree Health Benefit OPEB Trust

The Palomar Community College District Retiree Health Benefit OPEB Trust (the Trust) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by the District's Governing Board as directed by the investment alternative choice selected by the District. The District retains the responsibility to oversee the management of the Trust, including the requirement that investments and assets held within the Trust continually adhere to the requirements of the California Government Code Section 53600.5 which specifies that the trustee's primary role is to preserve capital, to maintain investment liquidity, and to protect investment yield. As such, the District acts as the fiduciary of the Trust. The financial activity of the Trust has been discretely presented.

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The contribution requirements of the Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, and any additional amounts to prefund benefits with the District and District's bargaining units based on availability of funds. For the measurement period of June 30, 2020, the District contributed $5,468,447 to the Plan, which was used for current premiums.

Investment

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the District to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, expect for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2020:

Asset Class	Target Allocation
U.S. Large Cap	29%
U.S. Small Cap	13%
All Foreign Stock	9%
Other Fixed Income	49%

Rate of Return

For the year ended June 30, 2020, the annual money-weighed rate of return on investments, net of investment expense, was 4.28%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability of the District

The District's net OPEB liability of $82,327,332 was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2020, were as follows:

Total OPEB liability	$ 89,720,234
Plan fiduciary net position	7,392,902
District's net OPEB liability	$ 82,327,332
Plan fiduciary net position as a percentage of the total OPEB liability	8.24%

Actuarial Assumptions

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.75 percent
Discount rate	6.30 percent
Health care cost trend rates	4.00 percent

The discount rate was based on long-term expected return on plan assets, using the building block method.

Mortality rates were based on the 2020 CalSTRS Mortality Table for certificated employees and the 2017 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of plan experience through June 30, 2020.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2020, (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
U.S. Large Cap	7.795%
U.S. Small Cap	7.795%
All Foreign Stock	7.795%
Other Fixed Income	5.000%

Discount Rate

The discount rate used to measure the total OPEB liability was 6.30%. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB lability.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2019	$ 105,571,457	$ 7,089,273	$ 98,482,184
Service cost	1,451,003	-	1,451,003
Interest	4,665,130	-	4,665,130
Expected investment income	-	318,246	(318,246)
Difference between projected and actual experience	(2,415,563)	-	(2,415,563)
Changes in assumptions or other inputs	(7,556,550)	-	(7,556,550)
Change in benefit terms	(6,526,796)	-	(6,526,796)
Contributions - employer	-	5,468,447	(5,468,447)
Benefit payments	(5,468,447)	(5,468,447)	-
Administrative expense	-	(14,617)	14,617
Net change in total OPEB liability	(15,851,223)	303,629	(16,154,852)
Balance at June 30, 2020	$ 89,720,234	$ 7,392,902	$ 82,327,332

There were changes in benefit terms effecting the eligible employees and their dependents since the previous valuation.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Net OPEB Liability
1% decrease (5.30%)	$ 90,317,000
Current discount rate (6.30%)	82,327,332
1% increase (7.30%)	75,406,329

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District calculated using the current discount rate, as well as what the District's net OPEB liability would be if it were calculated using health care cost trend rates that are one percent lower or higher than the current health care costs trend rates:

Health Care Cost Trend Rates	Net OPEB Liability
1% decrease (3.00%)	$ 74,562,917
Current health care cost trend rate (4.00%)	82,327,332
1% increase (5.00%)	91,315,353

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB for the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,810,182
Changes of assumptions	-	4,028,957
Net difference between projected and actual earnings on OPEB plan investments	88,198	-
Total	$ 88,198	$ 5,839,139

Amounts reported as deferred outflows of resources and deferred inflows of resources related to related to the differences between projected and actual earnings on OPEB plan investments, differences between expected and actual experience and changes in assumptions will be amortized over the expected average remaining service life (EARSL) of all members that are provided benefits as of the beginning of the measurement period. The EARSL for the measurement period is 7.7 years and amounts will be recognized as OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ (863,592)
2022	(863,592)
2023	(863,590)
2024	(858,919)
2025	(1,534,173)
Thereafter	(767,075)
	$ (5,750,941)

Note 12 - Risk Management

Property and Liability 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, 2020, 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 2019-2020, 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 13 - 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 the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2020, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Aggregate Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 75,550,191	$ 21,266,674	$ 8,411,949	$ 9,574,643
CalPERS	75,295,278	20,059,376	698,378	13,281,397
Total	$ 150,845,469	$ 41,326,050	$ 9,110,327	$ 22,856,040

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, 2018, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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% 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	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	10.25%	10.205%
Required employer contribution rate	17.10%	17.10%
Required State contribution rate	10.328%	10.328%

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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above, and the District's total contributions were $8,670,664.

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

At June 30, 2020, 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	$ 75,550,191
State's proportionate share of net pension liability associated with the District	41,217,673
Total	$ 116,767,864

The net pension liability was measured as of June 30, 2019. 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. The District's proportionate share for the measurement periods of June 30, 2019, and June 30, 2018, was 0.0837% and 0.0824%, respectively, resulting in a net increase in the proportionate share of 0.0013%.

For the year ended June 30, 2020, the District recognized pension expense of $9,574,643. In addition, the District recognized pension expense and revenue of $6,138,200 for support provided by the State. At June 30, 2020, 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	$ 8,670,664	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	2,849,838	3,372,815
Differences between projected and actual earnings on pension plan investments	-	2,910,217
Differences between expected and actual experience in the measurement of the total pension liability	190,724	2,128,917
Changes of assumptions	9,555,448	-
Total	$ 21,266,674	$ 8,411,949

The deferred outflows 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 subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earning 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,	Deferred Outflows/(Inflows) of Resources
2021	$ (293,545)
2022	(2,310,369)
2023	(479,668)
2024	173,365
Total	$ (2,910,217)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 1,333,639
2022	1,333,639
2023	1,426,420
2024	2,694,849
2025	201,033
Thereafter	104,698
Total	$ 7,094,278

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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 (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.80%
Fixed income	12%	1.30%
Real estate	13%	3.60%
Private equity	13%	6.30%
Risk Mitigating Strategies	9%	1.80%
Inflation sensitive	4%	3.30%
Cash/liquidity	2%	-0.40%

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. 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 (7.10%) 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 (6.10%)	$ 112,500,487
Current discount rate (7.10%)	75,550,191
1% increase (8.10%)	44,911,358

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, 2018, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after 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	7.00%	7.00%
Required employer contribution rate	19.721%	19.721%

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, 2020, are presented above, and the total District contributions were $7,447,636.

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $75,295,278. The net pension liability was measured as of June 30, 2019. 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 periods of June 30, 2019 and June 30, 2018, was 0.2584% and 0.2458%, respectively, resulting in a net increase in the proportionate share of 0.0126%.

For the year ended June 30, 2020, the District recognized pension expense of $13,281,397. At June 30, 2020, 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	$ 7,447,636	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	3,557,991	-
Differences between projected and actual earnings on pension plan investments	-	698,378
Differences between expected and actual experience in the measurement of the total pension liability	5,469,460	-
Changes of assumptions	3,584,289	-
Total	$ 20,059,376	$ 698,378

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 subsequent fiscal year.

The deferred outflows/(inflows) 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,	Deferred Outflows/(Inflows) of Resources
2021	$ 689,376
2022	(1,377,006)
2023	(208,669)
2024	197,921
Total	$ (698,378)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 7,417,156
2022	3,481,768
2023	1,557,104
2024	155,712
Total	$ 12,611,740

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and services

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of Scale MP-2016.

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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. 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	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. 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 (6.15%)	$ 108,533,192
Current discount rate (7.15%)	75,295,278
1% increase (8.15%)	47,722,132

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2020, which amounted to $5,749,466 (10.328%) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2020. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of these contributions has been recorded in these financial statements.

Note 14 - 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 15 - 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, 2020.

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, 2020.

Operating Leases

The District has entered into various operating leases for building space, and equipment with lease terms in excess of one year for various locations within the District boundaries. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2021	$ 1,010,658
2022	197,311
2023	191,338
Total	$ 1,399,307

Current year expenditures for operating leases is approximately $1,238,078.

Construction Commitments

As of June 30, 2020, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
PC Fallbrook Education Center	$ 221,473	June 2021
PC Rancho Bernardo Education Center	31,816	June 2021
San Marcos Campus CEQA/EIR Study	8,175	June 2024
Library and Learning Resource Center	1,887,716	June 2022
Athletics Complex	134,461	June 2024
Maintenance and Operations Bldg	4,375	June 2021
PC Fallbrook Education Center	2,144,318	June 2024
Athletics Complex	47,196	June 2024
Borrego Springs	10,125	June 2021
	$ 4,489,655	

Note 16 - Subsequent Events

Subsequent to year end, the District has been negatively impacted by the effects of the world-wide coronavirus pandemic. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the District's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

On November 3, 2020, the District issued the $201,365,000 2020 General Obligation Refunding Bonds. The bonds issued included $86,460,000 of current interest serial bonds and $114,905,000 current interest term bonds. Proceeds from the sale of the bonds were used to refund certain portions of the District's outstanding General Obligation Bonds, Election of 2006, Series C and 2015 General Obligation Refunding Bonds, and to pay the costs of issuing the bonds. The bonds mature beginning on August 1, 2021 through August 1, 2044, with interest rates from 0.341 to 2.990%.

Required Supplementary Information
June 30, 2020

Palomar Community College District

	2020	2019	2018
Total Net OPEB Liability			
Service costs	$ 1,451,003	$ 1,408,741	$ 1,934,593
Interest	4,665,130	5,029,789	5,940,823
Difference between projected and actual experience	(2,415,563)	-	-
Change in assumptions or other inputs	(7,556,550)	3,859,317	-
Change of benefit terms	(6,526,796)	-	-
Benefits payments	(5,468,447)	(5,893,134)	(5,588,742)
Net changes in total OPEB liability	(15,851,223)	4,404,713	2,286,674
Total Net OPEB Liability - Beginning	105,571,457	101,166,744	98,880,070
Total Net OPEB Liability - Ending (a)	$ 89,720,234	$ 105,571,457	$ 101,166,744
Plan Fiduciary Net Position			
Contributions - employer	$ 5,468,447	$ 7,893,134	$ 5,588,742
Expected investment income	318,246	301,319	690,766
Administrative expense	(14,617)	-	(500)
Benefits payments	(5,468,447)	(5,893,134)	(5,588,742)
Net changes in fiduciary net position	303,629	2,301,319	690,266
Plan Fiduciary Net Position - Beginning	7,089,273	4,787,954	4,097,688
Plan Fiduciary Net Position - Ending (b)	$ 7,392,902	$ 7,089,273	$ 4,787,954
District's Net OPEB Liability - Ending (a) - (b)	$ 82,327,332	$ 98,482,184	$ 96,378,790
Plan Fiduciary Net Position as A Percentage of the Total OPEB Liability	8.24%	6.72%	4.73%
Covered-employee payroll	$ 89,005,087	$ 88,241,386	$ 79,075,506
District's Net OPEB Liability as a Percentage of Covered-employee payroll	92.50%	111.61%	121.88%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018

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

	2020	2019	2018
Annual money-weighted rate of return, net of investment expense	4.28%	6.30%	9.20%

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

	2020	2019	2018	2017	2016	2015
CalSTRS						
District's proportion of the net pension liability	0.0837%	0.0824%	0.0814%	0.0809%	0.0915%	0.0909%
District's proportionate share of the net pension liability	$ 75,550,191	$ 75,692,563	$ 75,282,780	$ 65,416,466	$ 61,617,589	$ 53,119,316
State's proportionate share of the net pension liability associated with the District	41,217,673	43,337,533	44,536,657	37,240,427	32,588,912	32,075,736
Total	$ 116,767,864	$ 119,030,096	$ 119,819,437	$ 102,656,893	$ 94,206,501	$ 85,195,052
District's covered payroll	$ 52,423,520	$ 46,626,140	$ 45,243,148	$ 41,606,198	$ 38,026,419	$ 40,938,175
District's proportionate share of the net pension liability as a percentage of its covered payroll	144.12%	162.34%	166.40%	157.23%	162.04%	129.75%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%	77%
CalPERS						
District's proportion of the net pension liability	0.2584%	0.2458%	0.2366%	0.2221%	0.2588%	0.2756%
District's proportionate share of the net pension liability	$ 75,295,278	$ 65,540,272	$ 56,481,943	$ 43,871,669	$ 38,144,438	$ 31,291,747
District's covered payroll	$ 35,817,866	$ 32,449,366	$ 28,819,657	$ 26,587,887	$ 31,818,546	$ 28,936,290
District's proportionate share of the net pension liability as a percentage of its covered payroll	210.22%	201.98%	195.98%	165.01%	119.88%	108.14%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%	83%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

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

	2020	2019	2018	2017	2016	2015
CalSTRS						
Contractually required contribution	$ 8,670,664	$ 8,534,549	$ 6,728,152	$ 5,691,588	$ 4,464,345	$ 3,376,746
Contributions in relation to the contractually required contribution	(8,670,664)	(8,534,549)	(6,728,152)	(5,691,588)	(4,464,345)	(3,376,746)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 50,705,637	$ 52,423,520	$ 46,626,140	$ 45,243,148	$ 41,606,198	$ 38,026,419
Contributions as a percentage of covered payroll	17.10%	16.28%	14.43%	12.58%	10.73%	8.88%
CalPERS						
Contractually required contribution	$ 7,447,636	$ 6,469,423	$ 5,039,711	$ 4,002,474	$ 3,149,867	$ 3,745,361
Contributions in relation to the contractually required contribution	(7,447,636)	(6,469,423)	(5,039,711)	(4,002,474)	(3,149,867)	(3,745,361)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 37,765,002	$ 35,817,866	$ 32,449,366	$ 28,819,657	$ 26,587,887	$ 31,818,546
Contributions as a percentage of covered payroll	19.721%	18.062%	15.531%	13.888%	11.847%	11.771%

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

Note 1 - Purpose of Schedules

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the Plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were changes in benefit terms effecting the eligible employees and their dependents since the previous valuation.

Changes of Assumptions – Changes of assumptions and other inputs reflect a change in the inflation rate from 2.25% to 2.75%, change in salary increase rate from 3.00% to 3.75%, change in the discount rate from 5.80 to 6.30%, and health care cost trend rates from 8.00 to 4.00% since the previous valuation.

Schedule of OPEB Investment Returns

This schedule presents information on the annual money-weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net positions and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions - There were no changes in economic assumptions since the previous valuations for both CalSTRS and CalPERS.

Schedule of District Contributions for Pensions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Supplementary Information
June 30, 2020

Palomar Community College District

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.

Governing Board

Member	Office	Term Expires
Nancy Ann Hensch	President	2020
Nina Deerfield	Vice-President	2020
Norma Miyamoto	Secretary	2022
John J. Halcón, Ph.D.	Trustee	2020
Mark R. Evilsizer	Trustee	2022
Rachel Alazar	Student Trustee	2021

Administration

Name	Title
Jack Kahn, Ph.D.	Interim Superintendent/President
Shayla Sivert	Acting Assistant Superintendent/Vice President, Instruction
Aiden Ely	Acting Superintendent/Vice President, Student Services
Linda Beam	Acting Superintendent/Vice President, Human Resource Services
Yulian Ligioso	Acting Superintendent/Vice President, Finance and Administrative Services

AUXILIARY ORGANIZATIONS IN GOOD STANDING
Palomar College Foundation, established in 1959
Master Agreement with Foundation revised November 14, 2008
Stacy Rungaitis, Executive Director

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed to Subrecipients
U.S. Department of Education				
Student Financial Assistance Cluster				
Federal Pell Grant Program	84.063		$ 18,352,144	$ -
Federal Pell Grant Program Administrative Allowance	84.063		41,230	-
Federal Work Study Program	84.033		493,024	-
Federal Work Study Program Administrative Allowance	84.033		69,217	-
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		590,100	-
Federal Direct Student Loans	84.268		721,132	-
Subtotal Student Financial Assistance Cluster			20,266,847	-
COVID-19: CARES Act Higher Education Emergency Relief Funds, Institutional Portion	84.425F		1,202,922	-
COVID-19: CARES Act Higher Education Emergency Relief Funds, Student Aid Portion	84.425E		1,289,250	-
Subtotal			2,492,172	-
TRIO Cluster				
Palomar College North County Educational Opportunity Centers	84.066A		248,362	-
Student Support Services - San Marcos	84.042A		452,943	-
Student Support Services - Escondido	84.042A		283,111	-
Upward Bound	84.047A		305,786	-
Upward Bound Rural	84.047A		319,812	-
Talent Search - Escondido	84.044A		314,962	-
Talent Search - Vista	84.044A		282,334	-
Subtotal TRIO Cluster			2,207,310	-
Increasing Higher Learning Institution Student Participation, Persistence, and Completion in STEM Education	84.031S		556,489	141,357
Gear-Up Partnership in Escondido and San Marcos	84.334A		268,251	-
Gear-Up Rural Reservation Collaborative in Pauma, Vista, and Fallbrook	84.334A		951,941	-
Subtotal			1,220,192	-
Passed through from the California Community Colleges Chancellor's Office (CCCCO)				
Career and Technical Education Act, Perkins, IV	84.048A	19-C01-039	746,570	-
Career and Technical Education, Transitions	84.048A	19-C01-039	41,589	-
Subtotal			788,159	-
Total U.S. Department of Education			27,531,169	141,357
U.S. Department of Veterans Affairs				
Veterans Educational Assistance	64.028		5,120	-
Total U.S. Department of Veterans Affairs			5,120	-

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed to Subrecipients
U.S. Department of Agriculture				
Passed through the California Department of Education				
Child and Adult Care Food Program	10.558	13666	$ 39,497	$ -
Total U.S. Department of Agriculture			39,497	-
Research and Development Cluster				
National Science Foundation				
Passed through Jefferson Community College and Technical College				
Geospatial Technology Center of Excellence: Growing the Workforce	47.076	DUE-1700496	9,567	-
Unmanned Aircraft System Operations Technician Education Program (UASTEP)	47.076		289,338	-
Subtotal Research and Development Cluster			298,905	-
U.S. Department of Health and Human Services				
Passed through from the California Community Colleges Chancellor's Office				
Temporary Assistance for Needy Families (TANF)	93.558	[1]	58,875	-
CCDF Cluster				
Passed through Yosemite Community College District				
Child Development Training Consortium	93.575	19-20-4164	31,388	-
Subtotal CCDF Cluster			31,388	
Total U.S. Department of Health and Human Services			90,263	-
Total Federal Expenditures			$ 27,964,954	$ 141,357

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

	Program Entitlements			Program Revenues				
Program	Current Year	Prior Year	Total Entitlement	Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
Board Financial Assistance Program	$ 687,399	$ -	$ 687,399	$ 687,399	$ -	$ 18,901	$ 668,498	$ 668,498
CalWORKs	335,752	-	335,752	335,752	-	16,715	319,037	319,037
CalWORKs Regional Efforts	898	-	898	898	-	-	898	898
SSCG	1,699,319	111,494	1,810,813	1,794,736	-	-	1,794,736	1,794,736
Financial Aid Technology	64,249	188,920	253,169	253,169	-	92,951	160,218	160,218
CA College Promise AB19	1,752,002	-	1,752,002	1,752,002	-	303,337	1,448,665	1,448,665
Disabled Students Programs and Services (DSPS)	1,341,456	4,169	1,345,625	1,345,625	-	18,674	1,326,951	1,326,951
Deaf & Heard of Hearing (DHH)	104,480	-	104,480	104,480	-	827	103,653	103,653
Access to Print	11,629	-	11,629	11,629	-	573	11,056	11,056
WCCE TRANSITIONS PROGRAM	-	113,636	113,636	45,454	-	15,944	29,510	29,510
Cooperative Agencies Resources for Education (CARE)	125,247	-	125,247	125,247	-	-	125,247	125,247
Extended Opportunities, Programs & Services (EOPS)	1,205,420	-	1,205,420	1,205,420	-	5,193	1,200,227	1,200,227
Pre-Apprenticeship Grant	-	131,949	131,949	-	58,911	-	58,911	58,911
UMOJA Program	32,000	-	32,000	32,000	-	17,757	14,243	14,243
Student Success and Support Program	3,140,394	-	3,140,394	3,140,394	-	-	3,140,394	1,928,123
Student Success (Noncredit)	231,710	-	231,710	231,710	-	-	231,710	152,703
BASIC SKILLS INITIATIVE	616,354	-	616,354	616,354	-	-	616,354	241,267
Student Success and Support Program Prior Year	-	925,745	925,745	925,745	-	-	925,745	925,745
Student Success Equity	1,779,327	-	1,779,327	1,779,327	-	-	1,779,327	380,348
Student Success Equity Prior Year	-	897,763	897,763	897,763	-	-	897,763	897,763
HUNGER FREE CAMPUS SUPPORT X1	-	3,354	3,354	3,354	-	-	3,354	3,354
HUNGER FREE CAMPUS SUPPORT	64,827	159,356	224,183	224,183	-	95,300	128,883	128,883
Strong Workforce FY 1617	-	30,355	30,355	30,355	-	-	30,355	30,355

	Program Entitlements			Program Revenues				
Program	Current Year	Prior Year	Total Entitlement	Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
Strong Workforce FY 1718	$ -	$ 755,214	$ 755,214	$ 755,214	$ -	$ -	$ 755,214	$ 755,214
Strong Workforce FY 1819	2,395,787	1,232,444	3,628,231	3,628,231	-	1,506,266	2,121,965	2,121,965
Nursing Education AND	210,300	-	210,300	210,300	-	-	210,300	210,300
Mental Health Support	-	154,150	154,150	154,150	-	105,851	48,299	48,299
Mental Health Services	-	183,885	183,885	33,884	138,633	-	172,517	172,517
Telecommunications and Technology Infrastructure	3,750,000	-	3,750,000	1,498,137	1,595,010	-	3,093,147	3,093,147
Telecommunications and Technology Infrastructure FY1819	-	835,670	835,670	633,983	201,687	-	835,670	835,670
Basic Skills FY1819	-	569,018	569,018	569,018	-	-	569,018	569,018
Guided Pathway	1,023,584	-	1,023,584	1,023,584	-	627,827	395,757	395,757
Youth Empowerment Strategies for Success (YESS)	22,500	65	22,565	1,721	20,750	-	22,471	22,471
Innovation in Higher Education	1,325,572	-	1,325,572	1,325,572	-	1,159,923	165,649	165,649
Veteran Resource Center	340,744	1,243,178	1,583,922	465,062	-	288,700	176,362	176,362
VETERAN'S CENTER REMODEL	145,532	-	145,532	58,213	36	-	58,249	58,249
Total State Categorical Programs				$ 25,900,065	$ 2,015,027	$ 4,274,739	$ 23,640,353	$ 20,575,009

	Reported Data	Audit Adjustments	Audited Data
Categories			
A. Summer Intersession (Summer 2019 only)			
1. Noncredit**	57.34	-	57.34
2. Credit	222.90	-	222.90
B. Summer Intersession (Summer 2020 - Prior to July 1, 2020)			
1. Noncredit**	-	-	-
2. Credit	119.50	-	119.50
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	10,311.07	-	10,311.07
(b) Daily Census Contact Hours	698.13	-	698.13
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	503.63	-	503.63
(b) Credit	635.88	-	635.88
3. Alternative Attendance Accounting Procedure Courses			
(a) Weekly Census Procedure Courses	2,685.19	-	2,685.19
(b) Daily Census Procedure Courses	1,177.23	-	1,177.23
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	16,410.87	-	16,410.87
Supplemental information (subset of above information)			
E. In-Service Training Courses (FTES)	143.28	-	143.28
F. Basic Skills Courses and Immigrant Education			
1. Noncredit**	502.31	-	502.31
2. Credit	145.74	-	145.74
CCFS-320 Addendum			
CDCP Noncredit FTES	360.00	-	360.00
Centers FTES			
1. Noncredit**	185.56	-	185.56
2. Credit	1,006.28	-	1,006.28

** Including Career Development and College Preparation (CDCP) FTES.

		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	$ 26,453,780	$ -	$ 26,453,780	$ 26,453,780	$ -	$ 26,453,780
Other	1300	16,840,778	-	16,840,778	16,840,778	-	16,840,778
Total Instructional Salaries		43,294,558	-	43,294,558	43,294,558	-	43,294,558
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	9,974,814	-	9,974,814
Other	1400	-	-	-	750,993	-	750,993
Total Noninstructional Salaries		-	-	-	10,725,807	-	10,725,807
Total Academic Salaries		43,294,558	-	43,294,558	54,020,365	-	54,020,365
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	25,030,716	-	25,030,716
Other	2300	-	-	-	926,152	-	926,152
Total Noninstructional Salaries		-	-	-	25,956,868	-	25,956,868
Instructional Aides							
Regular Status	2200	1,946,687	-	1,946,687	1,946,687	-	1,946,687
Other	2400	396,919	-	396,919	396,919	-	396,919
Total Instructional Aides		2,343,606	-	2,343,606	2,343,606	-	2,343,606
Total Classified Salaries		2,343,606	-	2,343,606	28,300,474	-	28,300,474
Employee Benefits	3000	20,950,265	-	20,950,265	41,165,963	-	41,165,963
Supplies and Material	4000	-	-	-	959,426	-	959,426
Other Operating Expenses	5000	-	-	-	9,465,188	-	9,465,188
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		66,588,429	-	66,588,429	133,911,416	-	133,911,416

		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
Exclusions							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and	5900	$ 461,582	$ -	$ 461,582	$ 461,582	$ -	$ 461,582
Student Health Services Above Amount	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits	6740	-	-	-	807,544	-	807,544
Objects to Exclude							
Rents and Leases	5060	-	-	-	174,698	-	174,698
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		-	-	-	-	-	-

		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	$ -	$ -	$ -	$ 3,165,053	$ -	$ 3,165,053
Capital Outlay	6000	-	-	-	-	-	-
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		461,582	-	461,582	4,608,877	-	4,608,877
Total for ECS 84362, 50 Percent Law		$ 66,126,847	$ -	$ 66,126,847	$ 129,302,539	$ -	$ 129,302,539
Percent of CEE (Instructional Salary		51.14%		51.14%	100.00%		100.00%
50% of Current Expense of Education					$ 64,651,270		$ 64,651,270

There were no adjustments to the Annual Financial and Budget Report (CCFS-311), which required reconciliation to the audited financial statements at June 30, 2020.

Activity Classification	Object Code			Unrestricted	
EPA Revenue:	8630				$ 9,225,025
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	$ 9,225,025	$ -	$ -	$ 9,225,025
Revenues Less Expenditures					$ -

Amounts reported for governmental activities in the statement of net position are different because		
Total Fund Balance		
General Funds	$ 26,402,687	
Special Revenue Funds	540,841	
Capital Project Funds	178,916,638	
Debt Service Funds	123,241,059	
Internal Service Funds	12,753,224	
Fiduciary Funds	4,087	
Total fund balance		$ 341,858,536
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	610,502,328	
Accumulated depreciation is	(97,728,069)	512,774,259
In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term liabilities is recognized when it is incurred.		(11,691,094)
Deferred outflows of resources represent a consumption of net position in a future period and are not reported in the District's funds. Deferred outflows of resources at year-end consist of:		
Deferred charges on refunding	6,231,377	
Deferred outflows of resources related to OPEB	88,198	
Deferred outflows of resources related to pensions	41,326,050	
Total deferred outflows of resources		47,645,625
Deferred inflows of resources represent an acquisition of net position that applies to a future period and are not reported in the District's funds. Deferred inflows of resources at year-end consist of:		
Deferred inflows of resources related to OPEB	(5,839,139)	
Deferred inflows of resources related to pensions	(9,110,327)	
Total deferred inflows of resources		(14,949,466)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year end consist of		
General obligation bonds	$(774,493,141)	
Lease revenue bonds	(1,675,000)	
Compensated absences	(4,075,277)	
Load banking	(705,454)	
Net OPEB liability	(82,327,332)	
Aggregate net pension liability	(150,845,469)	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest on those bonds to date is the following:	(63,558,271)	
Total long-term liabilities		$(1,077,679,944)
Total net position		$ (202,042,084)

Note 1 - Purpose of Schedules

District Organization

This schedule provides information about the District's governing board members, administration members, and auxiliary organizations as of June 30, 2020.

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation
The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2020. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

Summary of Significant Accounting Policies
Expenditures reported in the Schedule are reported on the modified accrual basis of accounting, except for subrecipient expenditures, which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate
The District has not elected to use the ten percent de minimis cost rate.

SEFA Reconciliation
The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards:

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Position:		$ 29,939,662
Federal Pell Grant Program Administrative Allowance	84.063	11,310
Federal Work Study Program Administrative Allowance	84.033	4,687
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	(300)
Veterans Educational Assistance	64.028	(16,000)
Child Development Training Consortium	93.575	138
Build America Bonds	N/A	(1,974,543)
Total Expenditures of Federal Awards		$ 27,964,954

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 students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis for making apportionments of State funds to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

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

ECS 84362 requires the District to expend a minimum of 50% 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 Audited 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 audited financial statements.

Proposition 30 Education Protection Account (EPA) Expenditure Report

This schedule provides information about the District's EPA proceeds and summarizes the expenditures of EPA proceeds.

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 government-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

Independent Auditor's Reports
June 30, 2020

Palomar Community College District

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 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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 24, 2021.

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) as a basis for designing 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.

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

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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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2021

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

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 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, 2020. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of 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, 2020.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2021

EideBailly

CPAs & BUSINESS ADVISORS

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 described in the 2019-2020 California Community Colleges Chancellor's Office *Contracted District Audit Manual* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified in the table below.

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 in the table below. 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 2019-2020 California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed in the table below has 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 considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

Compliance Requirements Tested

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 411	SCFF Data Management Control Environment
Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Activities Funded From Other Sources
Section 424	Student Centered Funding Formula Base Allocation: FTES
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Dual Enrollment (CCAP and Non-CCAP)
Section 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment

Section 439	Proposition 39 Clean Energy Fund
Section 444	Apprenticeship Related and Supplemental Instruction (RSI) Funds
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D and 51 State Bond Funded Projects
Section 491	Education Protection Account Funds

The District reports no Apportionment for Activities Funded from Other Sources; therefore, the compliance tests within this section were not applicable.

The District reports no attendance within classes subject to TBA Hours; therefore, tests within this section were not applicable.

The District does not have any Proposition 1D and 51 State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

Unmodified Opinion
In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the State programs noted in the table above that were audited for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Contracted District Audit Manual,* this report is not suitable for any other purpose.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster	84.063, 84.033, 84.007, 84.268
COVID-19: CARES Act Higher Education Emergency Relief Funds, Institutional Portion	84.425F
COVID-19: CARES Act Higher Education Emergency Relief Funds, Student Aid Portion	84.425E
Gear-Up Partnership in Escondido and San Marcos	84.334A
Gear-Up Rural Reservation Collaborative in Pauma, Vista, and Fallbrook	84.334A

Dollar threshold used to distinguish between type A and type B programs:	$838,948
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

None reported.

None reported.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

February 24, 2021

To the Board of Trustees
Palomar Community College District
San Marcos, California

We have audited the financial statements and conducted our performance audit of Palomar Community College District's (the District) General Obligation Bond Fund (Measure M) as of and for the year ended June 30, 2020, and have issued our reports thereon dated February 24, 2021. Professional standards require that we advise you of the following matters relating to our audits.

Our Responsibility in Relation to the Financial Statement Audit of the District's General Obligation Bond Fund (Measure M) under Generally Accepted Auditing Standards and *Government Auditing Standards* and the Performance Audit under *Government Auditing Standards*

As communicated in our letter dated May 18, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Additionally, our responsibility, as described by professional standards, is to conduct a performance audit in accordance with *Government Auditing Standards*. Our audit of the financial statements and performance audit do not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. We are also responsible for communicating significant matters related to the objectives of the performance audit. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audits

We conducted our audits consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. No such significant accounting estimates were identified.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audits

We encountered no significant difficulties in dealing with management relating to the performance of the audits.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The following summarizes uncorrected financial statement misstatements whose effects in the current period, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Measure M

Understatement of Cash in County Treasury (fair market value adjustment)	$2,308,640

Fair market value was not adjusted because gains or losses generally do not materialize due to the nature of the investment in the county treasury pool. Redemptions of this investment are generally at face value.

The effect of these uncorrected misstatement as of and for the year ended June 30, 2020, is an understatement of the net change in fund balance of approximately $2,308,640 and understatement of fund balance of approximately $2,308,640.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's General Obligation Bond Fund (Measure M) financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated February 24, 2021.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Modification of the Auditor's Report

We have made the following modification to our auditor's report.

Emphasis of Matter
As discussed in Note 1, the financial statements of the General Obligation Bond Fund specific to Measure M are intended to present the financial position and the changes in financial position attributable to the transactions of those Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

This report is intended solely for the information and use of the Board of Trustees and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Rancho Cucamonga, California

Financial and Performance Audits
Measure M General Obligation Bond Construction Fund
June 30, 2020

Palomar Community College District

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Financial Audit
Measure M General Obligation Bond Construction Fund
June 30, 2020

Palomar Community College District

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Trustees
and Citizens' Oversight Committee
Palomar Community College District
San Marcos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Palomar Community College District's (the District) General Obligation Bond Construction Fund (Measure M), as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Obligation Bond Construction Fund (Measure M) of the District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1, the financial statements of the General Obligation Bond Construction Fund specific to Measure M are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2021, 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 solely 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 effectiveness of the District's 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.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2021

Assets	
Investments	$ 165,656,083
Accounts receivable	696,157
Due from other funds	566
Prepaid expenditures	199,294
Total assets	$ 166,552,100
Liabilities and Fund Balance	
Liabilities	
Accounts payable	$ 102,931
Due to other funds	231,598
Total liabilities	334,529
Fund Balance	
Nonspendable	199,294
Restricted for capital projects	166,018,277
Total fund balance	166,217,571
Total liabilities and fund balance	$ 166,552,100

Revenues	
Interest income	$ 3,444,509
Expenditures	
Classified salaries	370,992
Employee benefits	214,678
Services and operating expenditures	1,818,148
Capital outlay	13,878,137
Total expenditures	16,281,955
Change in Fund Balance	(12,837,446)
Fund Balance, Beginning	179,055,017
Fund Balance, Ending	$ 166,217,571

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Palomar Community College District's (the District) General Obligation Bond Construction Fund (Measure M) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The Palomar Community College District's General Obligation Bond Construction Fund (Measure M) accounts for the financial transactions in accordance with the policies and procedures of the California Community Colleges *Budget and Accounting Manual*.

Financial Reporting

The financial statements include only the General Obligation Bond Construction Fund (Measure M) of the District. This Fund was established to account for the receipt of proceeds of general obligation bond issuances and the expenditures of the proceeds under the General Obligation Bond Election of 2006. These financial statements are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the General Obligation Bond Construction Fund (Measure M) are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to, and accounted for, in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The General Obligation Bond Construction Fund (Measure M) is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's Board of Trustees adopts an operating budget in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's Board of Trustees satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid, and all outstanding encumbrances are liquated at June 30.

Prepaid Expenditures

Prepaid expenditures represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fund Balance

As of June 30, 2020, the fund balance is classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Note 2 - 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

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the 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

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 San Diego County Investment Pool. The District maintains a General Obligation Bond Construction Fund (Measure M) investment of $165,656,083 with the San Diego County Investment Pool, with an average maturity of 556 days.

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 San Diego County Investment Pool is rated AAAf/S1 by Fitch Ratings agency.

Note 3 - Accounts Receivable

Accounts receivable at June 30, 2020, consist of the following:

Interest	$ 696,157

Note 4 - Inter-Fund Receivables/Borrowings

The Unrestricted General Fund owes the General Obligation Bond Construction Fund (Measure M) $566 for reimbursement of salaries. The General Obligation Bond Construction Fund (Measure M) owes $231,598 to various funds for bond related expenditures.

Note 5 - Accounts Payable

Accounts payable at June 30, 2020, consist of the following:

Capital projects	$ 102,931

Note 6 - Commitments and Contingencies

As of June 30, 2020, the General Obligation Bond Construction Fund (Measure M) had the following significant construction commitments with respect to unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
PC Fallbrook Education Center	$ 221,474	June 2021
PC Rancho Bernardo Education Center	31,816	June 2021
San Marcos Campus CEQA/EIR Study	8,175	June 2024
Library and Learning Resource Center	1,887,716	June 2022
Athletics Complex	137,461	June 2024
Maintenance and Operations Building	4,375	June 2021
PC Fallbrook Education Center	2,144,318	June 2024
Athletics Complex	47,196	June 2024
Borrego Springs	10,125	June 2021
	$ 4,492,656	

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 General Obligation Bond Construction Fund (Measure M) at June 30, 2020.

Independent Auditor’s Report
June 30, 2020

Palomar Community College District

EideBailly

CPAs & BUSINESS ADVISORS

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
 and Citizens' Oversight Committee
Palomar Community College District
San Marcos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Palomar Community College District's (the District) General Obligation Bond Construction Fund (Measure M), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 24, 2021.

Emphasis of Matter

As discussed in Note 1, the financial statements of the General Obligation Bond Construction Fund specific to Measure M are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2020, and results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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) as a basis for designing 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 General Obligation Bond Construction Fund (Measure M) 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.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's General Obligation Bond Construction Fund (Measure M) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2021

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Performance Audit
Measure M General Obligation Bond Construction Fund
June 30, 2020

Palomar Community College District

Independent Auditor's Report on Performance

Board of Trustees
and Citizens' Oversight Committee
Palomar Community College District
San Marcos, California

We were engaged to conduct a performance audit of the Palomar Community College District's (the District) General Obligation Bond Construction Fund (Measure M) for the year ended June 30, 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIIIA, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIIIA, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The results of our tests indicated that the District expended General Obligation Bond Construction Fund (Measure M) funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIIIA, Section 1(b)(3)(C) of the California Constitution.

This report is intended solely for the information and use of the District, and is not intended to be and should not be used by anyone other than this specified party.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2021

10681 Foothill Blvd., Ste. 300 | Rancho Cucamonga, CA 91730-3831 | T 909.466.4410 | F 909.466.4431 | EOE

Authority for Issuance

The Measure M General Obligation Bonds (the Bonds) were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California *Education Code*, and other applicable provisions of law. The Bonds were authorized to be issued by a resolution adopted by the Board of Supervisors of North San Diego County (the County Resolution), pursuant to a request of the Palomar Community College District (the District) made by a resolution adopted by the Board of Education of the District (the District Resolution).

The District received authorization from an election held in November 2006 to issue bonds of the District in an aggregate principal amount not to exceed $694,000,000 to finance specific acquisition, construction, and modernization projects approved by eligible voters within the District. The Measure required approval by at least 55% of the votes cast by eligible voters within the District. The Measure M Bond Funds represent the authorized bond issuance of the Series 2006A, Series 2006B, Series 2006C, Series 2006D, and 2015 Refunding bonds.

Purpose of Issuance

Pursuant to the 2006 Authorization, the proceeds of the Bonds will be used to finance the repair, renovation, and construction of facilities noted on a specific Project List for facilities of the District. The bond project list includes:

- Upgrade nursing and emergency medical career training labs
- Modernize outdated science, computer and job training labs/equipment
- Upgrade electrical and technology infrastructure
- Repair/replace deteriorated roofs, plumbing, lighting, heating, and ventilation systems
- Improve energy efficiency
- Modernize/replace outdated classrooms and student support facilities
- Complete safety upgrades to college buildings and grounds

Authority for the Audit

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools, and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education for the following: "construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55% of the electorate. In addition to reducing the approval threshold from two-thirds to 55%, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in *Education Code* Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIIIA, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other district operating expenses.

2. The district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety and information technology needs in developing the project list.

3. Requires the district to appoint a citizens' oversight committee.

4. Requires the district to conduct an annual independent financial audit and performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.

5. Requires the district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

Objectives of the Audit

1. Determine whether expenditures charged to the General Obligation Bond Construction Fund (Measure M) have been made in accordance with the Bond project list approved by the voters through the approval of the Measure M.
2. Determine whether salary transactions charged to the General Obligation Bond Construction Fund (Measure M) were in support of Measure M and not for District general administration or operations.

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2019 to June 30, 2020. The population of expenditures tested included all object and project codes associated with the Bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2020, were not reviewed or included within the scope of our audit or in this report.

Methodology

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2020, for the General Obligation Bond Construction Fund (Measure M). Within the fiscal year audited, we obtained the actual invoices, purchase orders, and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIIIA, Section 1(b)(3)(C) of the California Constitution and Measure M as to the approved bond projects list. We performed the following procedures:

1. We identified expenditures and projects charged to the general obligation bond proceeds by obtaining the general ledger and project listing.

2. We selected a sample of expenditures using the following criteria:
    a. We considered all expenditures recorded in all object codes, including transfers out.
    b. We considered all expenditures recorded in all projects that were funded from July 1, 2019 through June 30, 2020 from Measure M bond proceeds.
    c. We selected a sample of expenditures using professional judgement, based on risk assessment and consideration of coverage of all object codes, including transfers out, and projects for period starting July 1, 2019 and ending June 30, 2020.

3. Our sample included transaction totaling $11,734,503. This represents 72% of the total expenditures of $16,281,955, including transfers out.

4. We reviewed the actual invoices and other supporting documentation to determine that:
    a. Expenditures were supported by invoices with evidence of proper approval and documentation of receipting goods or services.
    b. Expenditures were supported by proper bid documentation, as applicable.
    c. Expenditures were expended in accordance with voter-approved bond project list.
    d. Bond proceeds were not used for salaries of school administrators or other operating expenses of the District.

5. We determined that the District has met the compliance requirement of Measure M is the following conditions were met:
    a. Supporting documents for expenditures were aligned with the voter-approved bond project list.
    b. Expenditures were not used for salaries of school administrators or other operating expenses of the District.

Conclusion

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures held in the General Obligation Bond Construction Fund (Measure M) and that such expenditures were made for authorized Bond projects.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.