



Financial Statements  
June 30, 2023

# Palomar Community College District

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## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### ***Opinions***

We have audited the financial statements of the business-type activities and the remaining fund information of the Palomar Community College District (the District) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the remaining fund information of the Palomar Community College District, as of June 30, 2023, 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.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Adoption of New Accounting Standard***

As discussed in Note 2 and Note 14 to the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ending June 30, 2023. As a result of implementing the standard, there was no effect on the District's business-type activities net position as of July 1, 2022. Our opinions are not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 19 and other required supplementary schedules as listed in the table of contents on pages 65 through 72 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information, including the Schedule of Expenditures of Federal Awards, as required by 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), and other supplementary information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the Schedule of Expenditures of Federal Awards and other supplementary information listed in the table of content 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 December 21, 2023 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.



Rancho Cucamonga, California  
December 21, 2023

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, 2023 and 2022. 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 1.9 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 250 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 2022-2023, a total of 4,219 degrees and certificates (Chancellor's office approved) were earned by students at Palomar. 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 ***"Transforming lives for a better future."*** Palomar's mission *"respects each of our students' experiences and supports them to achieve academic success. As a community college, we encourage our students to embrace the best version of themselves and prepare them to engage with our local and global communities."* The District promotes open access and celebrates the diversity of its students, faculty, staff, and the community. Annually, we serve over 18,000 full-time and part-time students. Approximately 31% of students are enrolled full-time in credit courses, while about 69% are enrolled part-time in credit courses. About 65% of our students are 24 and under, while 35% 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 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. Star Rivera-Lacey serves as the 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. 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 2022-2023, the District's Governing Board adopted a total budget of \$572,382,921, of which \$194,392,997 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 \$48,512,776 or 33.7% of total expenditures and outgo. This reflects a \$7,890,257 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 16.67%, (matching the Chancellor's Office recommended reserve level of two months of expenditures) for economic uncertainties. The balance above the 16.67% 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, 2023, the taxable properties within the District's jurisdiction have an assessed valuation of \$160.9 billion for the upcoming 2023-2024 assessment year (County of San Diego Assessor's Office, 6/30/23). The district is currently in the process of developing a new Educational and Facilities Vision Plan 2035. The new plan is anticipated to be adopted by the District's Governing Board during fiscal 2023-2024.

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 alignment with Measure M ballot language.

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 upgraded its outlook for Palomar Community College District in July 2022 from negative to "Aa2 with a Stable Outlook". This rating is based on the District's adequate financial profile with fiscal year 2021-2022 projected results exceeding budgeted amounts driven by receipts of one-time revenue and expenditure savings. The rating reflects the District's "extremely large and diverse tax base that is well positioned for continued growth, in addition to favorable resident income and wealth levels. The rating also reflects the District's solid financial position and management's commitment to improved fiscal policies and procedures, which support sound operations going forward."

"The stable outlook reflects our expectation that financial reserves (at Palomar College) will remain healthy and long-term liabilities will remain manageable, supported by improved fiscal policies and procedures and a favorable current state funding environment."

## 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, 2023 and 2022 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 right-to-use subscription IT 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, 2023 and 2022.

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 and right-to-use subscription IT assets, which are stated at historical cost less an allowance for depreciation and amortization. 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 right-to-use subscription IT 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 cash invested primarily in the San Diego County Treasury Investment Pool. As provided for by California *Education Code* Section 41001, a significant portion of the District's cash balances, totaling \$309,678,123, 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 increased from \$286,954,062 to \$315,115,236 primarily due to increases in receipts of restricted categorical revenues.

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 \$18,354,701. Other current assets include prepayments to vendors for goods or services that will not be received until the following fiscal year.

Capital assets and right-to-use subscription IT assets represent the District's investment in land, site improvements, buildings, building improvements, construction in progress, equipment, and software licenses less the cost of accumulated depreciation and amortization. Capital assets and right-to-use subscription IT 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. Amortization of right-to-use subscription IT assets is computed using straight-line method over the life of the subscription. Land and construction in progress are considered non-depreciable capital assets; therefore no depreciation is calculated. As of June 30, 2023, the District recorded \$645,107,095 invested in capital assets and right-to-use subscription IT assets, \$135,292,660 in accumulated depreciation and amortization, netting \$509,814,435 recorded in net capital assets and right-to-use subscription IT assets. Capital assets increased by a net value of \$4,881,035 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 increase of \$8,418,995 from last year reflects changes in statutory rates for pension contributions, the contributions subsequent to the measurement date associated with the pension 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 2022-2023 for which payment would not be made until fiscal year 2023-2024. Also included are accrued payroll and outstanding liabilities and related interest payable. Unearned revenue includes deferred enrollment fees for the 2023-2024 academic year and advances from federal, state, and local program funds received but not yet earned as of June 30, 2023. Most grant funds are earned when expended (up to the grant amount awarded). The District's current liabilities at June 30, 2023, were \$20,464,371 more than at June 30, 2022.

The District's long-term liabilities are debt with maturities of more than one year, consisting of \$749,398,768 in voter-approved General Obligation Bonds and Lease Revenue Bonds, \$133,544,936 in aggregate net pension liability resulting from GASB 68 - *Accounting and Financial Reporting for Pensions*; \$74,051,130 in net OPEB liability resulting from GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and \$6,066,751 in other liabilities such as compensated absences, load banking, and subscription-based IT arrangements. At year end, the District has an aggregate net pension liability of \$133,544,936 versus \$85,922,230 last year, an increase of \$47,622,706. The General Obligation Bonds and Lease Revenue Bonds decreased by \$8,413,120. 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 \$7,362,641. At June 30, 2023, the District recorded \$963,061,585 in long term liabilities, of which \$17,409,491 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 of resources decreased by \$39,855,359.

### **Changes in Net Position (Deficit)**

Net position (deficit) is an accounting concept defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. Changes in net position (deficit) 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 revenues exceeded expenditures resulting in an increase in net position (deficit) of \$33,407,451, decreasing from \$(168,708,837) to \$(135,301,386). 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, equipment and right-to-use subscription IT assets owned by the District (capital and right-to-use subscription IT assets less net of accumulated depreciation and amortization 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 \$19,332,891 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 \$84,144,945 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 (deficit) increased by \$10,219,884, increasing from \$(248,999,106) to \$(238,779,222) 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 2023 AND 2022

A summarized comparison of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2023 and 2022, is presented below:

### THE DISTRICT AS A WHOLE

#### Net Position

**Table 1**

	2023	2022, as restated	Change
<b>Assets</b>			
Cash and investments	\$ 315,115,236	\$ 286,954,062	\$ 28,161,174
Receivables, net	18,354,701	13,664,390	4,690,311
Other current assets	94,942	168,593	(73,651)
Capital assets and right-to-use subscription IT assets, net	509,814,435	504,318,535	5,495,900
<b>Total assets</b>	<b>843,379,314</b>	<b>805,105,580</b>	<b>38,273,734</b>
<b>Deferred Outflows of Resources</b>	<b>80,402,483</b>	<b>71,983,528</b>	<b>8,418,955</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	58,803,817	38,339,446	20,464,371
Current portion of long-term liabilities	17,409,491	15,925,000	1,484,491
Noncurrent portion of long-term liabilities	945,652,094	914,460,359	31,191,735
<b>Total liabilities</b>	<b>1,021,865,402</b>	<b>968,724,805</b>	<b>53,140,597</b>
<b>Deferred Inflows of Resources</b>	<b>37,217,781</b>	<b>77,073,140</b>	<b>(39,855,359)</b>
<b>Net Position (Deficit)</b>			
Net investment in capital assets	19,332,891	11,081,057	8,251,834
Restricted	84,144,945	69,209,212	14,935,733
Unrestricted deficit	(238,779,222)	(248,999,106)	10,219,884
<b>Total net position (deficit)</b>	<b>\$ (135,301,386)</b>	<b>\$ (168,708,837)</b>	<b>\$ 33,407,451</b>

## 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, 2023 and 2022, 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 \$265,865,111 and expenditures totaled \$232,457,660 resulting in an overall increase in net position by \$33,407,451.

## **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) increased by \$48,995 in 2023 as the District began to regain enrollment losses that occurred during the pandemic.

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 \$139,808,240.

State apportionments decreased in 2022-2023 by \$6,543,383 primarily due to increases in local property taxes. Reported FTES declined from 13,470 in 2021-2022 to 13,295 (Recalc) in 2022-2023. Local property taxes increased by \$12,559,376 as the taxable assessed value of properties within the District boundaries increased by 7.79% from the prior year. 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 increased by \$670,613 from the prior year. The vast majority of operating expenses are for the salaries and benefits of academic, classified, and administrative personnel, comprising of \$141,129,034 or 67% of the total operating expenses from a District-wide full accrual perspective. This amount includes the activity from all District funds. The \$15,712,339 increase in salaries and benefits was primarily due to changes in actuarially determined pension expenses related to the aggregate net pension liability. Supplies, maintenance, and equipment expenses are \$54,540 more than the prior year. Student financial aid decreased by \$15,816,034. The \$719,768 increase in depreciation is due to the continued completion, capitalization, and subsequent depreciation and amortization 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, 2023 and 2022, is presented below:

### Operating Results for Fiscal Years 2023 and 2022

**Table 2**

	2023	2022	Change
Operating Revenues			
Tuition and fees, net	\$ 11,774,307	\$ 11,725,312	\$ 48,995
Grants and contracts, noncapital	58,493,749	53,627,726	4,866,023
Total operating revenues	<u>70,268,056</u>	<u>65,353,038</u>	<u>4,915,018</u>
Operating Expenses			
Salaries and benefits	141,129,034	125,416,695	15,712,339
Supplies, services, equipment, and maintenance	31,769,770	31,715,230	54,540
Student financial aid	24,203,390	40,019,424	(15,816,034)
Depreciation and amortization	12,974,102	12,254,334	719,768
Total operating expenses	<u>210,076,296</u>	<u>209,405,683</u>	<u>670,613</u>
Operating loss	<u>(139,808,240)</u>	<u>(144,052,645)</u>	<u>4,244,405</u>
Nonoperating Revenues (Expenses)			
State apportionments, noncapital	18,709,317	25,252,700	(6,543,383)
Property taxes	142,250,507	129,691,131	12,559,376
Student financial aid grants	19,485,169	34,705,477	(15,220,308)
State revenues	6,772,603	5,809,089	963,514
Net interest expense	(22,381,364)	(26,010,977)	3,629,613
Other nonoperating revenues	2,642,897	2,075,765	567,132
Total nonoperating revenue (expenses)	<u>167,479,129</u>	<u>171,523,185</u>	<u>(4,044,056)</u>
Other Revenues			
State capital income	<u>5,736,562</u>	<u>7,637,800</u>	<u>(1,901,238)</u>
Change in net position	<u>\$ 33,407,451</u>	<u>\$ 35,108,340</u>	<u>\$ (1,700,889)</u>

### Expenses by Functional Classification – All Funds

The following represents the fiscal year 2023 operating expenses by function:

**Table 3**

	Salaries and Employee Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Equipment, Maintenance, and Repairs	Depreciation and Amortization	Total
Instructional activities	\$ 59,037,005	\$ 2,411,974	\$ -	\$ 362,925	\$ -	\$ 61,811,904
Academic support	27,649,924	2,454,442	-	535,737	-	30,640,103
Student services	18,635,363	3,627,720	-	126,135	-	22,389,218
Plant operations and maintenance	7,255,633	6,160,439	-	1,382,957	-	14,799,029
Instructional support services	19,573,642	6,508,791	-	1,258,993	-	27,341,426
Community services and economic development	683,499	1,530,183	-	-	-	2,213,682
Ancillary services and auxiliary operations	6,354,785	563,270	-	51,153	-	6,969,208
Student aid	-	-	24,203,390	-	-	24,203,390
Physical property and related acquisitions	1,939,183	115,005	-	4,680,046	-	6,734,234
Unallocated depreciation and amortization	-	-	-	-	12,974,102	12,974,102
<b>Total</b>	<b>\$ 141,129,034</b>	<b>\$ 23,371,824</b>	<b>\$ 24,203,390</b>	<b>\$ 8,397,946</b>	<b>\$ 12,974,102</b>	<b>\$ 210,076,296</b>

### 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, 2023 and 2022, is presented below:

**Table 4**

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Net Cash Flows from			
Operating activities	\$ (107,152,193)	\$ (134,557,299)	\$ 27,405,106
Noncapital financing activities	140,358,177	167,356,397	(26,998,220)
Capital financing activities	(8,841,753)	3,814,696	(12,656,449)
Investing activities	<u>3,796,943</u>	<u>(5,071,250)</u>	<u>8,868,193</u>
Change in Cash and Cash Equivalents	28,161,174	31,542,544	(3,381,370)
Cash and Cash Equivalents, Beginning of Year	<u>286,954,062</u>	<u>255,411,518</u>	<u>31,542,544</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 315,115,236</u></u>	<u><u>\$ 286,954,062</u></u>	<u><u>\$ 28,161,174</u></u>

## **CAPITAL ASSETS, RIGHT-TO-USE SUBSCRIPTION IT ASSETS AND LONG-TERM LIABILITIES ADMINISTRATION**

### **Capital Assets and Right-to-Use Subscription IT Assets**

As of June 30, 2023, the District had in place \$645,107,095 invested in net capital assets and right-to-use subscription IT assets, net of accumulated depreciation and amortization of \$135,292,660. 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.

Note 6 to the financial statements provides additional information on capital assets and right-to-use subscription IT assets. A summary of the District's investment in capital assets and right-to-use subscription IT assets, net of depreciation and amortization, is presented below:

**Table 5**

	Balance, July 1, 2022, as restated	Additions	Deductions	Balance, June 30, 2023
Land, construction in progress and works of art	\$ 79,342,614	\$ 14,217,895	\$ (5,106,556)	\$ 88,453,953
Buildings and improvements	522,746,240	5,093,656	-	527,839,896
Furniture and equipment	24,276,408	3,029,283	-	27,305,691
Right-to-use subscription IT assets	886,696	620,859	-	1,507,555
Subtotal capital assets and right-to-use subscription IT assets	627,251,958	22,961,693	(5,106,556)	645,107,095
Accumulated depreciation and amortization	(122,318,558)	(12,974,102)	-	(135,292,660)
Total capital assets and right-to-use subscription IT assets, net	<u>\$ 504,933,400</u>	<u>\$ 9,987,591</u>	<u>\$ (5,106,556)</u>	<u>\$ 509,814,435</u>

**Long-Term Liabilities including the Aggregate Net Pension and Aggregate Net OPEB Liabilities**

As of June 30, 2023, the District had \$963,061,585 in long-term liabilities primarily made up of general obligation and lease revenue bonds, aggregate net pension liability and aggregate net OPEB liability. Notes 7, 8 and 10 to the financial statements provides additional information on long-term liabilities. A summary of long-term liabilities is presented below:

**Table 6**

	Balance, July 1, 2022, as restated	Additions	Deductions	Balance June 30, 2023
General obligation bonds	\$ 756,371,888	\$ 9,669,826	\$ (17,952,946)	\$ 748,088,768
Lease revenue bonds	1,440,000	-	(130,000)	1,310,000
Aggregate net pension liability	85,922,230	47,622,706	-	133,544,936
Aggregate net OPEB liability	81,413,771	-	(7,362,641)	74,051,130
Other liabilities	5,852,335	715,736	(501,320)	6,066,751
Total long-term liabilities	<u>\$ 931,000,224</u>	<u>\$ 58,008,268</u>	<u>\$ (25,946,907)</u>	<u>\$ 963,061,585</u>
Amount due within one year				<u>\$ 17,409,491</u>

## **DISTRICT FIDUCIARY RESPONSIBILITY**

The District's fiduciary activities are reported separately in the Statement 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 December 7, 2023, revenue projections are currently coming in lower than anticipated mainly due to lower prior year revenue estimates for 2022-2023 by \$26 billion.

Temporary protections under the COVID-19 Emergency Conditions Allowance were extended through the end of 2022-2023 and, the Student Centered Funding Formula's (SCFF) existing minimum revenue (hold harmless) provision was extended by one year, through 2024-25. Under this provision, districts will earn at least their 2017-18 total computational revenue, adjusted by COLA each year, if applicable. The Governor's Budget extends the revenue protections in a modified form with the district's 2024-25 funding representing its new "floor", below which it could not drop. Funding rates will no longer include adjustments to reflect cumulative COLAs over time until such a time as the district's calculated revenue based on the SCFF formula exceeds the "floor" funding.

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. It is important to note District pension costs are expected to grow significantly. For 2023-2024, the contribution rates currently are projected to grow from 25.37% to 26.68% for CalPERS and remain flat at 19.10% for CalSTRS.

As the COVID-19 pandemic subsides and activities begin to return and stabilize, the economic and other actions that may need to be taken by the government remain uncertain. Staff and students have returned to an on-site presence. The District actively monitors and follows public health guidelines as needed.

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. For 2023-2024 and beyond, the District is focused on adjusting to the changing educational landscape since the pandemic and the updated needs of current and future students. The development of the Education and Facilities Vision Plan 2035 will inform new learning platforms and facilities to meet and exceed the vision for the next decade.

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**

Todd McDonald, Ed.D., Assistant Superintendent/Vice President, Finance and Administrative Services

Palomar Community College District

Statement of Net Position

June 30, 2023

<b>Assets</b>	
Cash and cash equivalents	\$ 5,437,113
Investments	309,678,123
Accounts receivable	13,746,257
Student receivables, net	4,608,444
Prepaid expenses	94,942
Capital assets and right-to-use subscription IT assets	
Nondepreciable capital assets	88,453,953
Depreciable capital assets, net of accumulated depreciation	420,557,320
Right-to-use subscription IT assets, net of accumulated amortization	803,162
Total capital assets and right-to-use subscription IT assets, net	509,814,435
Total assets	843,379,314
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to debt refunding	31,135,280
Deferred outflows of resources related to OPEB	7,784,411
Deferred outflows of resources related to pensions	41,482,792
Total deferred outflows of resources	80,402,483
<b>Liabilities</b>	
Accounts payable	17,417,296
Accrued interest payable	7,679,740
Due to fiduciary fund	2,950,769
Unearned revenue	30,756,012
Long-term liabilities	
Long-term liabilities other than OPEB and pensions, due within one year	17,409,491
Long-term liabilities other than OPEB and pensions, due in more than one year	738,056,028
Aggregate net other postemployment benefits (OPEB) liability	74,051,130
Aggregate net pension liability	133,544,936
Total liabilities	1,021,865,402
<b>Deferred Inflows of Resources</b>	
Deferred inflows of resources related to OPEB	15,302,491
Deferred inflows of resources related to pensions	21,915,290
Total deferred inflows of resources	37,217,781
<b>Net Position (Deficit)</b>	
Net investment in capital assets	19,332,891
Restricted for	
Debt service	19,663,058
Capital projects	36,792,514
Educational programs	10,701,228
Other activities	16,988,145
Unrestricted deficit	(238,779,222)
Total net position (deficit)	\$ (135,301,386)

Palomar Community College District  
Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2023

Operating Revenues	
Tuition and fees	\$ 19,545,584
Less: Scholarship discounts and allowances	<u>(7,771,277)</u>
Net tuition and fees	<u>11,774,307</u>
Grants and contracts, noncapital	
Federal	15,479,776
State	41,678,210
Local	<u>1,335,763</u>
Total grants and contracts, noncapital	<u>58,493,749</u>
Total operating revenues	<u>70,268,056</u>
Operating Expenses	
Salaries	100,983,670
Employee benefits	40,145,364
Supplies, materials, and other operating expenses and services	23,371,824
Student financial aid	24,203,390
Equipment, maintenance, and repairs	8,397,946
Depreciation and amortization	<u>12,974,102</u>
Total operating expenses	<u>210,076,296</u>
Operating Loss	<u>(139,808,240)</u>
Nonoperating Revenues (Expenses)	
State apportionments, noncapital	18,709,317
Local property taxes, levied for general purposes	106,405,816
Taxes levied for other specific purposes	35,844,691
Federal and State financial aid grants	19,485,169
State taxes and other revenues	6,772,603
Investment income, net	5,952,157
Interest expense on capital related debt	(28,787,106)
Investment income on capital asset-related debt, net	453,585
Other nonoperating revenue	<u>2,642,897</u>
Total nonoperating revenues (expenses)	<u>167,479,129</u>
Income Before Other Revenues	<u>27,670,889</u>
Other Revenues	
State revenues, capital	<u>5,736,562</u>
Change In Net Position	33,407,451
Net Position (Deficit), Beginning of Year	<u>(168,708,837)</u>
Net Position (Deficit), End of Year	<u><u>\$ (135,301,386)</u></u>



Palomar Community College District

Statement of Cash Flows

Year Ended June 30, 2023

Operating Activities	
Tuition and fees	\$ 12,105,129
Federal, state, and local grants and contracts, noncapital	105,729,631
Payments to or on behalf of employees	(172,499,315)
Payments to vendors for supplies and services	(28,284,248)
Payments to students for scholarships and grants	(24,203,390)
Net cash flows from operating activities	(107,152,193)
Noncapital Financing Activities	
State apportionments	16,353,022
Federal and state financial aid grants	8,384,791
Property taxes - nondebt related	106,405,816
State taxes and other apportionments	6,670,764
Other nonoperating	2,543,784
Net cash flows from noncapital financing activities	140,358,177
Capital Financing Activities	
Purchase of capital assets	(15,365,592)
State revenue, capital	5,736,562
Property taxes - related to capital debt	35,844,691
Principal paid on capital debt	(16,357,562)
Interest paid on capital debt	(19,256,010)
Interest received on capital asset-related debt	556,158
Net cash flows from capital financing activities	(8,841,753)
Investing Activities	
Change in fair value of cash in county treasury	(1,492,207)
Interest received from investments	5,289,150
Net cash flows from investing activities	3,796,943
Change In Cash and Cash Equivalents	28,161,174
Cash and Cash Equivalents, Beginning of Year	286,954,062
Cash and Cash Equivalents, End of Year	\$ 315,115,236

Palomar Community College District

Statement of Cash Flows

Year Ended June 30, 2023

Reconciliation of Net Operating Loss to Net Cash Flows from Operating Activities	
Operating Loss	<u>\$ (139,808,240)</u>
Adjustments to reconcile operating loss to net cash flows from operating activities	
Depreciation and amortization expense	12,974,102
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
Accounts receivable	(360,539)
Student receivables, net	230,885
Prepaid expenses	73,651
Deferred outflows of resources related to OPEB	2,694,339
Deferred outflows of resources related to pensions	(13,204,626)
Accounts payable	4,036,342
Unearned revenue	25,781,068
Compensated absences	94,877
Load banking	(68,758)
Aggregate net OPEB liability	(7,362,641)
Aggregate net pension liability	47,622,706
Deferred inflows of resources related to OPEB	2,655,234
Deferred inflows of resources related to pensions	<u>(42,510,593)</u>
Total adjustments	<u>32,656,047</u>
Net cash flows from operating activities	<u><u>\$ (107,152,193)</u></u>
Cash and Cash Equivalents Consist of the Following:	
Cash on hand and in banks	\$ 5,437,113
Cash in county treasury	<u>309,678,123</u>
Total cash and cash equivalents	<u><u>\$ 315,115,236</u></u>
Noncash Transactions	
Amortization of deferred outflows of resources related to debt refunding	\$ 2,091,332
Amortization of debt premiums	\$ 2,157,946
Accretion of interest on capital appreciation bonds	\$ 9,669,826
Recognition of subscription-based IT arrangement liabilities arising from obtaining right-to-use subscription IT assets	\$ 620,859

Palomar Community College District

Fiduciary Fund

Statement of Net Position

June 30, 2023

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	Retiree OPEB Trust
	<hr/>
Assets	
Investments	\$ 11,637,529
Due from primary government	<hr/> 2,950,769
Total assets	<hr/> \$ 14,588,298
Net Position	
Restricted for postemployment benefits other than pensions	<hr/> \$ 14,588,298

Palomar Community College District

Fiduciary Fund

Statement of Changes in Net Position

Year Ended June 30, 2023

	Retiree OPEB Trust
Additions	
District contributions	\$ 8,712,959
Interest and investment income	279,827
Net realized and unrealized gain	568,734
Total additions	<u>9,561,520</u>
Deductions	
Benefit payments	5,762,190
Administrative expenses	12,411
Total deductions	<u>5,774,601</u>
Change in Net Position	3,786,919
Net Position - Beginning of Year	<u>10,801,379</u>
Net Position - End of Year	<u><u>\$ 14,588,298</u></u>

**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 accounting 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 as defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board (GASB). The District identified no component units.

**Basis of Accounting**

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB. This presentation provides a comprehensive government-wide perspective of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, activities, and cash flows and replaces the fund group perspective previously required. Fiduciary activities are excluded from the primary government financial statements. 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 promulgated 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. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, Federal and State grants, entitlements 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 and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

### **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 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, including money market investments and participating interest-earning investment contracts with original maturities greater than one year, are stated at cost or amortized cost.

The District's investment in the County Treasury is measured at fair value on a recurring basis, which is determined by the fair value per share of the underlying portfolio determined by the program sponsor. Positions in this investment pool is not required to be categorized within the fair value hierarchy.

### **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 District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$2,592,998 for the year ended June 30, 2023.

### **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

The District records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2023.

**Right-to-use Subscription IT Assets and Amortization**

The District records the value of right-to-use subscription IT assets based on the underlying subscription asset in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). The right-to-use subscription IT asset is amortized each year for the term of the contract or useful life of the underlying asset.

**Compensated Absences and Load Banking**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-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 0.004 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. All other bond issuance costs are expensed when incurred.

**Deferred Outflows of Resources and Deferred 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 until then. The District reports deferred outflows of resources related to debt refunding, for OPEB related items, and for pension related items. The deferred outflows of resources related to debt 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. The deferred amounts related to OPEB and pension related items are associated with differences between expected and actual earnings on plan investments, changes of assumptions, and other OPEB and pension related changes.

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.

**Subscription-based IT Arrangements**

The District recognizes a subscription-based IT arrangement liability and an intangible right-to-use subscription IT asset (subscription IT asset) in the government-wide financial statements. The District measures the subscription-based IT arrangement liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription-based IT arrangement liability is reduced by the principal portion of subscription payments made. The right-to-use subscription IT asset is initially measured as the initial amount of the subscription-based IT arrangement liability, plus certain initial direct costs. Subsequently, the right-to-use subscription IT asset is amortized on a straight-line basis over the subscription term or useful life of the underlying asset. The amortization period varies from two to four years.



**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 of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP recognize 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 aggregate net 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 is primarily composed of (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 bonds, lease revenue bonds, compensated absences, load banking, subscription-based IT arrangements, aggregate 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 and right-to-use subscription IT assets, net of accumulated depreciation and amortization, 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 its 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 \$84,144,945 of restricted net position, and the fiduciary funds financial statements report \$14,588,298 of restricted net position.

**Operating and Nonoperating 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. Classifications are as follows:

- **Operating revenues** - Operating revenues include activities that have the characteristics of exchange transactions such as tuition and fees, net of scholarship discounts and allowances, Federal, State, and local grants and contracts, and sales and services of auxiliary enterprises.
- **Nonoperating revenues** - Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as State apportionments, property taxes, investment income, and other revenue sources defined by GASB.

**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 and are recorded in the District's financial records when received. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

**Property Taxes**

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

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

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

**Scholarship Discounts and Allowances**

Tuition and fee revenue is reported net of scholarship discounts and allowances. Fee waivers approved by the California Community College Board of Governors are included within the scholarship 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.

**Financial Assistance Programs**

The District participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG), and Federal Work-Study programs, as well as other programs funded by the Federal government and State of California. Financial aid provided to the student in the form of cash is reported as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Position. Federal financial assistance programs are audited in accordance with Title 2 U.S. *Code of Federal Regulations* 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, and those differences could be material.

**Interfund Activity**

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 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.

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 primary government and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances transferred between the primary government and the fiduciary funds are not eliminated in the consolidation process.

**Change in Accounting Principles****Implementation of GASB Statement No. 91**

As of July 1, 2022, the District adopted GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to better meet the information needs of financial statement users by enhancing the comparability and consistency of conduit debt obligation reporting and reporting of related transactions and other events by state and local government issuers. The implementation of this standard eliminates the option for issuers of conduit debt to recognize a liability for this debt on their financial statements. In addition, it requires issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations. There was not a significant effect on the District's financial statements as a result of the implementation of the standard.

**Implementation of GASB Statement No. 94**

As of July 1, 2022, the District adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)*. The implementation of this standard establishes standards of accounting and financial reporting for PPPs and APAs. The standard requires recognition of an asset, receivable, and deferred inflow of resources. There was not a significant effect on the District's financial statements as a result of the implementation of the standard.

**Implementation of GASB Statement No. 96**

As of July 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription IT asset - an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 14 and the additional disclosures required by this standard are included in Notes 6 and 7.

**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 deposits substantially all receipts and collections of monies with their County Treasurer. 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, 2023, consist of the following:

	Primary Government	Fiduciary Fund
Cash on hand and in banks	\$ 5,415,789	\$ -
Cash in revolving	21,324	-
Investments	309,678,123	11,637,529
Total deposits and investments	<u>\$ 315,115,236</u>	<u>\$ 11,637,529</u>

### 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 primarily investing in the San Diego County Treasury Investment Pool and the Master Trust funds.

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

Investment Type	Fair Value	Weighted Average Maturity in Days	Credit Rating
San Diego County Treasury Investment Pool	\$ 309,678,123	438	AAA
Master Trust	11,637,529	No Maturity	Not rated
Total	<u>\$ 321,315,652</u>		

### 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 Treasury Investment Pool is not required to be rated. However, as of June 30, 2023, the San Diego County Treasury Investment Pool reflected an AAA rating by Fitch Ratings, Inc. The District's investment in the Master Trust is not required to be rated, nor has it been rated.

### Custodial Credit Risk

#### Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk 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, 2023, the District's bank balance of approximately \$5.5 million 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.

## Investments

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, 2023, the District's investment balance of approximately \$11.1 million was exposed to custodial credit risk because it exceeded Securities Investor Protection Corporation (SIPC) insurance of \$500,000. 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, 2023:

Investment Type	Fair Value	Fair Value Measurement Using Level 3 Inputs
Master Trust	\$ 11,637,529	\$ 11,637,529

All assets have been valued using a market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or group of assets.



**Note 5 - Accounts Receivable**

Accounts receivable at June 30, 2023, consisted of the following:

	<u>Primary Government</u>
Federal Government	
Categorical aid	\$ 4,940,552
State Government	
Apportionment	2,356,295
Categorical aid	423,851
Lottery	1,176,810
Local Sources	
Interest	2,673,523
Other local sources	<u>2,175,226</u>
Total	<u>\$ 13,746,257</u>
Student receivables	\$ 7,201,442
Less: allowance for bad debt	<u>(2,592,998)</u>
Student receivables, net	<u>\$ 4,608,444</u>

**Note 6 - Capital Assets and Right-to-Use Subscription IT Assets**

Capital assets and right-to-use subscription IT asset activity for the District for the year ended June 30, 2023, was as follows:

	Balance, July 1, 2022, as restated	Additions	Deductions	Balance, June 30, 2023
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 63,134,087	\$ -	\$ -	\$ 63,134,087
Construction in progress	16,127,857	14,211,430	(5,106,556)	25,232,731
Works of art	80,670	6,465	-	87,135
<b>Total capital assets not being depreciated</b>	<b>79,342,614</b>	<b>14,217,895</b>	<b>(5,106,556)</b>	<b>88,453,953</b>
<b>Capital Assets Being Depreciated</b>				
Land improvements	37,446,702	-	-	37,446,702
Buildings and improvements	485,299,538	5,093,656	-	490,393,194
Furniture and equipment	24,276,408	3,029,283	-	27,305,691
<b>Total capital assets being depreciated</b>	<b>547,022,648</b>	<b>8,122,939</b>	<b>-</b>	<b>555,145,587</b>
<b>Total capital assets</b>	<b>626,365,262</b>	<b>22,340,834</b>	<b>(5,106,556)</b>	<b>643,599,540</b>
<b>Less Accumulated Depreciation</b>				
Land improvements	(23,384,892)	(1,670,918)	-	(25,055,810)
Buildings and improvements	(76,995,650)	(9,858,068)	-	(86,853,718)
Furniture and equipment	(21,666,185)	(1,012,554)	-	(22,678,739)
<b>Total accumulated depreciation</b>	<b>(122,046,727)</b>	<b>(12,541,540)</b>	<b>-</b>	<b>(134,588,267)</b>
<b>Net capital assets</b>	<b>504,318,535</b>	<b>9,799,294</b>	<b>(5,106,556)</b>	<b>509,011,273</b>
<b>Right-to-use Subscription IT Assets Being Amortized</b>				
Right-to-use subscription IT assets	886,696	620,859	-	1,507,555
Accumulated amortization	(271,831)	(432,562)	-	(704,393)
<b>Net right-to-use subscription IT assets</b>	<b>614,865</b>	<b>188,297</b>	<b>-</b>	<b>803,162</b>
<b>Total capital assets and right-to-use subscription IT assets, net</b>	<b>\$ 504,933,400</b>	<b>\$ 9,987,591</b>	<b>\$ (5,106,556)</b>	<b>\$ 509,814,435</b>

## Note 7 - 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 year ended June 30, 2023, consisted of the following:

	Balance, July 1, 2022, as restated	Additions	Deductions	Balance, June 30, 2023	Due in One Year
General obligation bonds	\$ 734,572,084	\$ 9,669,826	\$ (15,795,000)	\$ 728,446,910	\$ 16,805,000
Bond premium	21,799,804	-	(2,157,946)	19,641,858	-
Lease revenue bonds	1,440,000	-	(130,000)	1,310,000	135,000
Compensated absences	4,476,929	94,877	-	4,571,806	-
Load banking	760,541	-	(68,758)	691,783	-
Subscription-based IT arrangements	614,865	620,859	(432,562)	803,162	469,491
<b>Total</b>	<b>\$ 763,664,223</b>	<b>\$ 10,385,562</b>	<b>\$ (18,584,266)</b>	<b>\$ 755,465,519</b>	<b>\$ 17,409,491</b>

### 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 Student Center Fee Fund. The compensated absences and load banking liability will be paid by the fund for which the employee worked. Payments on the subscription-based IT arrangements are made from the fund utilizing the software subscription.

### General Obligation Bonds

On November 7, 2006, the voters of the District approved the issuance of \$694,000,000 of 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 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, a portion of the remaining balance of the bonds were paid on the crossover date, August 1, 2020. The portion of the debt that was refunded was considered defeased on the crossover date. The outstanding principal balance of these bonds at June 30, 2023, was \$159,596,910.

**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. A portion of these bonds was refunded by the issuance of the District's 2021 General Obligation Refunding Bonds. Interest rates on the remaining bonds range from 2.00% to 5.00% payable semiannually on August 1 and February 1. The remaining bonds mature through August 1, 2025. The outstanding principal balance of these bonds at June 30, 2023, was \$4,235,000.

**General Obligation Bonds, Election 2006, Series D**

On March 22, 2017, the District issued General Obligation Bonds, Election 2006, Series D 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, 2023, was \$133,655,000.

**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. 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. A portion of these bonds was refunded by the issuance of the District's 2021 General Obligation Refunding Bonds. Bonds have a final maturity date of May 1, 2025, and interest rates ranging from 2.00% to 5.00%, payable semiannually on May 1 and November 1 of each year. The outstanding principal balance of these bonds at June 30, 2023, was \$14,005,000.

**2017 General Obligation Refunding (Crossover) Bonds**

On April 11, 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, a portion of the remaining balance of the bonds were paid on the crossover date, August 1, 2020. The portion of the debt that was refunded was considered defeased on the crossover date. The outstanding principal balance of these bonds at June 30, 2023, was \$101,770,000.

**2020 General Obligation Refunding Bonds**

On November 3, 2020, the District issued 2020 General Obligation Refunding Bonds of current interest bonds in the amount of \$201,365,000. Proceeds were used to partially refund the outstanding principal amount of the General Obligation Bonds, Election 2006, Series C and 2015 General Obligation Refunding Bonds. The Bonds were issued with a final maturity date of August 1, 2044, and interest rates range from 0.34% to 3.00%, depending on the maturity of the related bonds. The principal balance outstanding at June 30, 2023 was \$195,560,000.

## 2021 General Obligation Refunding Bonds

On October 13, 2021, the District issued 2021 General Obligation Refunding Bonds of current interest bonds in the amount of \$122,140,000. Proceeds were used to partially refund the outstanding principal amount of the General Obligation Bonds, Election 2006, Series C and 2015 General Obligation Refunding Bonds. The Bonds were issued with a final maturity date of August 1, 2040, and interest rates range from 0.17% to 2.82%, depending on the maturity of the related bonds. The principal balance outstanding at June 30, 2023 was \$119,625,000.

## Debt Maturity

### General Obligation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2022	Issued	Accreted Interest	Redeemed	Bonds Outstanding June 30, 2023
10/28/2010	8/1/2045	2.36-6.72%	\$ 91,498,901	\$ 153,567,084	\$ -	\$ 9,669,826	\$ (3,640,000)	\$ 159,596,910
3/17/2015	8/1/2025	2.00-5.00%	220,000,000	4,895,000	-	-	(660,000)	4,235,000
3/22/2017	8/1/2046	3.25-5.00%	139,000,000	134,035,000	-	-	(380,000)	133,655,000
1/13/2015	5/1/2025	2.00-5.00%	115,675,000	20,175,000	-	-	(6,170,000)	14,005,000
4/11/2017	8/1/2045	5.00%	101,770,000	101,770,000	-	-	-	101,770,000
11/3/2020	8/1/2044	0.34-3.00%	201,365,000	197,990,000	-	-	(2,430,000)	195,560,000
10/13/2021	8/1/2040	0.17-2.82%	122,140,000	122,140,000	-	-	(2,515,000)	119,625,000
				<u>\$ 734,572,084</u>	<u>\$ -</u>	<u>\$ 9,669,826</u>	<u>\$ (15,795,000)</u>	<u>\$ 728,446,910</u>

The Bonds mature through 2047 as follows:

Fiscal Year	Principal (Including Accreted Interest to Date)	Accreted Interest	Current Interest to Maturity	Total
2024	\$ 16,669,164	\$ 135,836	\$ 18,762,872	\$ 35,567,872
2025	18,146,114	468,886	18,317,495	36,932,495
2026	11,926,616	743,384	20,817,481	33,487,481
2027	15,745,280	244,720	23,640,077	39,630,077
2028	17,388,648	391,352	23,398,363	41,178,363
2029-2033	105,031,654	4,308,346	123,483,536	232,823,536
2034-2038	118,668,180	5,546,820	117,245,302	241,460,302
2039-2043	183,085,984	26,629,016	77,211,760	286,926,760
2044-2047	241,785,270	6,434,730	22,469,115	270,689,115
Total	<u>\$ 728,446,910</u>	<u>\$ 44,903,090</u>	<u>\$ 445,346,001</u>	<u>\$ 1,218,696,001</u>

### 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 5.00% to 5.63% 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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2024	\$ 135,000	\$ 69,288	\$ 204,288
2025	145,000	61,694	206,694
2026	150,000	53,538	203,538
2027	160,000	45,100	205,100
2028	165,000	36,900	201,900
2029-2031	555,000	57,913	612,913
Total	<u>\$ 1,310,000</u>	<u>\$ 324,433</u>	<u>\$ 1,634,433</u>

### Subscriptions-Based IT Arrangements (SBITAs)

The District entered into various SBITAs for the software needs of the District. At June 30, 2023, the District has recognized right-to-use subscriptions IT assets of \$803,162, net of accumulated amortization and SBITA liabilities of \$803,162 related to these agreements. During the fiscal year, the District recorded \$432,562 in amortization expense. The District is required to make total principal and interest payments of \$874,974 through 2025-2026 fiscal year. The District used a discount rate of 8.50% based on the estimated incremental borrowing rate for financing over a similar period.

The remaining principal and interest payment requirements for the SBITA obligation debt as of June 30, 2023, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 469,491	\$ 42,130	\$ 511,621
2025	162,203	14,930	177,133
2026	145,002	12,502	157,504
2027	26,466	2,250	28,716
Total	<u>\$ 803,162</u>	<u>\$ 71,812</u>	<u>\$ 874,974</u>

**Note 8 - Aggregate Net Other Postemployment Benefit (OPEB) Liability**

For the year ended June 30, 2023, the District reported an aggregate net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Aggregate Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 73,666,184	\$ 7,784,411	\$ 15,302,491	\$ (4,867,426)
Medicare Premium Payment (MPP Program)	384,946	-	-	(96,411)
Total	<u>\$ 74,051,130</u>	<u>\$ 7,784,411</u>	<u>\$ 15,302,491</u>	<u>\$ (4,963,837)</u>

The details of each plan are as follows:

**District Plan**

**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, 2022, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	590
Active employees	<u>656</u>
Total	<u><u>1,246</u></u>

**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. Separate financial statements are not prepared for the Trust.

**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 voluntary 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, 2023, the District contributed \$8,712,959 to the Plan, of which \$5,762,190 was used for current premiums and \$2,950,769 was used to fund the OPEB Trust.

**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, except 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, 2023:

<u>Asset Class</u>	<u>Target Allocation</u>
US Large Cap	29%
US Small Cap	13%
All Foreign Stock	9%
Other Fixed Income	49%

**Rate of Return**

For the year ended June 30, 2023, the annual money-weighted rate of return on investments, net of investment expense, was 8.96%. 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 \$70,715,415 was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022. The components of the net OPEB liability of the District at June 30, 2023, were as follows:

Total OPEB liability	\$ 85,303,713
Plan fiduciary net position	<u>(14,588,298)</u>
Net OPEB liability	<u>\$ 70,715,415</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>17.10%</u>

### Actuarial Assumptions

The total OPEB liability as of June 30, 2023 was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2022 and rolling forward the total OPEB liability to June 30, 2023. The following assumptions were applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	2.75%
Investment rate of return	5.75%
Healthcare cost trend rates	4.00%

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, 2022 valuation were based on the results of an actual experience study as of June 30, 2022.

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, 2023, (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
US Large Cap	7.55%
US Small Cap	7.55%
All Foreign Stock	7.55%
Other Fixed Income	3.00%

#### Discount Rate

The discount rate used to measure the total OPEB liability was 5.75%. 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 liability.

#### Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, June 30, 2022	\$ 91,733,793	\$ 10,801,379	\$ 80,932,414
Service cost	1,620,321	-	1,620,321
Interest	4,375,547	-	4,375,547
Difference between expected and actual experience	-	-	-
Contributions - employer	-	8,712,959	(8,712,959)
Net investment income	-	848,561	(848,561)
Changes of assumptions	(6,663,758)	-	(6,663,758)
Benefit payments	(5,762,190)	(5,762,190)	-
Administrative expense	-	(12,411)	12,411
Net change in total OPEB liability	(6,430,080)	3,786,919	(10,216,999)
Balance, June 30, 2023	\$ 85,303,713	\$ 14,588,298	\$ 70,715,415

Changes of economic assumptions reflect a change in the discount rate from 4.88% to 5.75% since the previous valuation. There were no changes in benefit terms 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 rate:

Discount Rate	Net OPEB Liability
1% decrease (4.75%)	\$ 81,331,436
Current discount rate (5.75%)	70,715,415
1% increase (6.75%)	67,718,169

### Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend 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 healthcare cost trend rate that are one percent lower or higher than the current healthcare costs trend rate:

Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease (3.00%)	\$ 65,316,389
Current healthcare cost trend rate (4.00%)	70,715,415
1% increase (5.00%)	82,631,197

### Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2023, 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	\$ 58,438	\$ 6,807,171
Changes of assumptions	7,384,524	8,495,320
Net difference between projected and actual earnings on OPEB plan investments	341,449	-
Total	<u>\$ 7,784,411</u>	<u>\$ 15,302,491</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 81,031
2025	55,481
2026	263,104
2027	(58,167)
Total	<u>\$ 341,449</u>

The deferred outflows/(inflows) of resources related to differences between expected and actual experience in the measurement of the total OPEB liability and changes of 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 6.2 years and will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ (1,681,396)
2025	(2,331,097)
2026	(1,563,999)
2027	(976,873)
2028	(1,091,206)
Thereafter	(214,958)
Total	<u>\$ (7,859,529)</u>

### Medicare Premium Payment (MPP) Program

#### Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2021 annual actuarial valuation report, Medicare Premium Payment 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 MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District contributions. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

**Net OPEB Liability and OPEB Expense**

At June 30, 2023, the District reported a liability of \$384,946 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2022 and June 30, 2021, was 0.1169% and 0.1207%, respectively, resulting in a net decrease in the proportionate share of 0.0038%.

For the year ended June 30, 2023, the District recognized OPEB expense of \$(96,411).

**Actuarial Methods and Assumptions**

The June 30, 2022 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2021, and rolling forward the total OPEB liability to June 30, 2022, using the assumptions listed in the following table:

Measurement Date	June 30, 2022
Valuation Date	June 30, 2021
Experience Study	July 1, 2015 through June 30, 2018
Actuarial Cost Method	Entry age normal
Investment Rate of Return	3.54%
Medicare Part A Premium Cost Trend Rate	4.50%
Medicare Part B Premium Cost Trend Rate	5.40%

For the valuation as of June 30, 2021, 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 members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 209 or an average of 0.14% of the potentially eligible population (145,282).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2022, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

#### Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2022, is 3.54%. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.54%, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2022, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 1.38% from 2.16% as of June 30, 2021.

#### Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net OPEB 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 OPEB Liability
1% decrease (2.54%)	\$ 419,665
Current discount rate (3.54%)	384,946
1% increase (4.54%)	354,884

### Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

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

Medicare Costs Trend Rates	Net OPEB Liability
1% decrease (3.50% Part A and 4.40% Part B)	\$ 353,202
Current Medicare costs trend rates (4.50% Part A and 5.40% Part B)	384,946
1% increase (5.50% Part A and 6.40% Part B)	420,929

### Note 9 - 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) and Statewide Association of Community Colleges (SWACC) for excess property limits. Property Coverage limit is \$500,250,000 combined single limit with a \$5,000 Member Retained Limit (MRL) per occurrence. SWACC retains the first \$250,000 (less Palomar CCD's MRL of \$5,000) and SAFER pays up to \$50,000,000. As for liability, the coverage is up to \$50,000,000 combined single limit with a \$50,000 MRL per occurrence. SWACC retains the first \$1,000,000 (less Palomar CCD's MRL of \$50,000) and SAFER pays up to \$50,000,000 (less Palomar CCD's MRL and SWACC's retained limits).

#### Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2023, 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 2022-2023, 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.

**Note 10 - 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, 2023, the District reported its proportionate share of the aggregate net pension liability, 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	\$ 54,104,953	\$ 16,161,658	\$ 14,296,992	\$ 3,054,876
CalPERS	79,439,983	25,321,134	7,618,298	8,506,229
Total	<u>\$ 133,544,936</u>	<u>\$ 41,482,792</u>	<u>\$ 21,915,290</u>	<u>\$ 11,561,105</u>

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, 2021, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that may 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 Defined Benefit Program provisions and benefits in effect at June 30, 2023, are summarized as follows:

	On or before <u>December 31, 2012</u>	On or after <u>January 1, 2013</u>
Hire date		
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	19.10%	19.10%
Required State contribution rate	10.828%	10.828%

### Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and are 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 California Assembly Bill 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, 2023, are presented above, and the District's total contributions were \$9,947,726.

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

At June 30, 2023, 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	\$ 54,104,953
State's proportionate share of net pension liability associated with the District	<u>27,095,549</u>
Total	<u>\$ 81,200,502</u>

The net pension liability was measured as of June 30, 2022. 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, 2022, and June 30, 2021, was 0.0779% and 0.0803%, respectively, resulting in a net decrease in the proportionate share of 0.0024%.

For the year ended June 30, 2023, the District recognized pension expense of \$3,054,876. In addition, the District recognized pension expense and revenue of \$2,185,238 for support provided by the State. At June 30, 2023, 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	\$ 9,947,726	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	3,486,338	7,594,414
Differences between projected and actual earnings on pension plan investments	-	2,645,837
Differences between expected and actual experience in the measurement of the total pension liability	44,383	4,056,741
Changes of assumptions	<u>2,683,211</u>	<u>-</u>
Total	<u>\$ 16,161,658</u>	<u>\$ 14,296,992</u>

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
2024	\$ (1,943,564)
2025	(2,105,523)
2026	(3,162,922)
2027	<u>4,566,172</u>
Total	<u>\$ (2,645,837)</u>

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
2024	\$ 1,099,634
2025	(1,227,391)
2026	(1,323,808)
2027	(1,443,904)
2028	(2,010,855)
Thereafter	(530,899)
Total	<u>\$ (5,437,223)</u>

#### 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, 2021, and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Experience study	July 1, 2015 through June 30, 2018
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-2019) 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 as an input to the process. The actuarial investment rate of return assumption was adopted by the board in January 2020 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent 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, 2022, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	42%	4.8%
Private equity	13%	6.3%
Real estate	15%	3.6%
Inflation sensitive	6%	3.3%
Fixed income	12%	1.3%
Risk mitigating strategies	10%	1.8%
Cash/liquidity	2%	(0.4%)

#### 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%)	\$ 91,890,277
Current discount rate (7.10%)	54,104,953
1% increase (8.10%)	22,731,773

**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, 2021, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that may 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 School Employer Pool provisions and benefits in effect at June 30, 2023, are summarized as follows:

	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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%	8.00%
Required employer contribution rate	25.37%	25.37%

## 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, 2023, are presented above, and the total District contributions were \$9,705,892.

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

As of June 30, 2023, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$79,439,983. The net pension liability was measured as of June 30, 2022. 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, 2022 and June 30, 2021, was 0.2309% and 0.2429%, respectively, resulting in a net decrease in the proportionate share of 0.0120%.

For the year ended June 30, 2023, the District recognized pension expense of \$8,506,229. At June 30, 2023, 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	\$ 9,705,892	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	5,641,729
Differences between projected and actual earnings on pension plan investments	9,379,702	-
Differences between expected and actual experience in the measurement of the total pension liability	359,022	1,976,569
Changes of assumptions	5,876,518	-
Total	<u>\$ 25,321,134</u>	<u>\$ 7,618,298</u>

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 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
2024	\$ 1,564,236
2025	1,387,369
2026	708,685
2027	<u>5,719,412</u>
Total	<u>\$ 9,379,702</u>

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 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ (762,321)
2025	(748,377)
2026	269,875
2027	<u>(141,935)</u>
Total	<u>\$ (1,382,758)</u>

#### 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, 2021, and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	6.90%
Investment rate of return	6.90%
Consumer price inflation	2.30%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. 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 - cap-weighted	30%	4.45%
Global equity - non-cap-weighted	12%	3.84%
Private equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed securities	5%	0.50%
Investment grade corporates	10%	1.56%
High yield	5%	2.27%
Emerging market debt	5%	2.48%
Private debt	5%	3.57%
Real assets	15%	3.21%
Leverage	(5%)	(0.59%)

### Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. 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 expected rate of return on the School Employer Pool investments 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 (5.90%)	\$ 114,755,077
Current discount rate (6.90%)	79,439,983
1% increase (7.90%)	50,253,355



**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 in the amount of \$4,346,689 (10.828% of annual payroll). 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. 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.

**Note 11 - Participation in Public Entity Risk Pools and Joint Powers Authorities**

The District participates in six 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); the Protected Insurance program for Schools (PIPS); 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 in 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 12 - 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, 2023.

### **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, 2023.

### **Construction Commitments**

As of June 30, 2023, the District had approximately \$10.1 million in commitments with respect to unfinished capital projects. The projects are funded through a combination of general obligation bonds and capital project apportionments from the California State Chancellor's Office.

## **Note 13 - Related Party Transactions**

The Palomar College Foundation (the Foundation) was organized as an independent organization under California *Corporate Code* and has a signed master agreement with the District. During the fiscal year ended June 30, 2023, the District provided \$638,585 in other goods and services.

**Note 14 - Adoption of New Accounting Standard**

As of July 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. As a result of the adoption of the new standard, the opening balances of certain assets and liabilities were restated as follows:

Primary Government	
Net Position (Deficit) - Beginning	\$ (168,708,837)
Right-to-use subscription IT assets, net of amortization	614,865
Subscription-based IT arrangements	<u>(614,865)</u>
Net Position (Deficit) - Beginning	<u><u>\$ (168,708,837)</u></u>



Required Supplementary Information  
June 30, 2023

## Palomar Community College District

**Palomar Community College District**  
**Schedule of Changes in the District's Net OPEB Liability and Related Ratios**  
**Year Ended June 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total OPEB Liability			
Service cost	\$ 1,620,321	\$ 1,397,340	\$ 1,296,186
Interest	4,375,547	5,373,449	4,790,414
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	(8,677,214)	-
Changes of assumptions	(6,663,758)	8,168,736	2,339,267
Benefit payments	<u>(5,762,190)</u>	<u>(6,774,674)</u>	<u>(5,899,945)</u>
Net change in total OPEB liability	(6,430,080)	(512,363)	2,525,922
Total OPEB Liability - Beginning	<u>91,733,793</u>	<u>92,246,156</u>	<u>89,720,234</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 85,303,713</u></u>	<u><u>\$ 91,733,793</u></u>	<u><u>\$ 92,246,156</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 8,712,959	\$ 9,774,674	\$ 5,899,945
Net investment income (loss)	848,561	(1,073,551)	1,503,583
Benefit payments	(5,762,190)	(6,774,674)	(5,899,945)
Administrative expense	<u>(12,411)</u>	<u>(11,492)</u>	<u>(10,063)</u>
Net change in plan fiduciary net position	3,786,919	1,914,957	1,493,520
Plan Fiduciary Net Position - Beginning	<u>10,801,379</u>	<u>8,886,422</u>	<u>7,392,902</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 14,588,298</u></u>	<u><u>\$ 10,801,379</u></u>	<u><u>\$ 8,886,422</u></u>
Net OPEB Liability - Ending (a) - (b)	<u><u>\$ 70,715,415</u></u>	<u><u>\$ 80,932,414</u></u>	<u><u>\$ 83,359,734</u></u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>17.10%</u>	<u>11.77%</u>	<u>9.63%</u>
Covered Employee Payroll	<u>\$ 90,339,694</u>	<u>\$ 83,540,002</u>	<u>\$ 81,134,925</u>
Net OPEB Liability as a Percentage of Covered Employee Payroll	<u>78.28%</u>	<u>96.88%</u>	<u>102.74%</u>
Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021

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

Palomar Community College District  
Schedule of Changes in the District's Net OPEB Liability and Related Ratios  
Year Ended June 30, 2023

	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 1,451,003	\$ 1,408,741	\$ 1,934,593
Interest	4,665,130	5,029,789	5,940,823
Changes of benefit terms	(6,526,796)	-	-
Difference between expected and actual experience	(2,415,563)	-	-
Changes of assumptions	(7,556,550)	3,859,317	-
Benefit payments	(5,468,447)	(5,893,134)	(5,588,742)
Net change in total OPEB liability	(15,851,223)	4,404,713	2,286,674
Total OPEB Liability - Beginning	105,571,457	101,166,744	98,880,070
Total OPEB Liability - Ending (a)	<u>\$ 89,720,234</u>	<u>\$ 105,571,457</u>	<u>\$ 101,166,744</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 5,468,447	\$ 7,893,134	\$ 5,588,742
Net investment income (loss)	318,246	301,319	690,766
Benefit payments	(5,468,447)	(5,893,134)	(5,588,742)
Administrative expense	(14,617)	-	(500)
Net change in plan 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)	<u>\$ 7,392,902</u>	<u>\$ 7,089,273</u>	<u>\$ 4,787,954</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 82,327,332</u>	<u>\$ 98,482,184</u>	<u>\$ 96,378,790</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>8.24%</u>	<u>6.72%</u>	<u>4.73%</u>
Covered Employee Payroll	<u>\$ 88,470,639</u>	<u>\$ 88,241,386</u>	<u>\$ 79,075,506</u>
Net OPEB Liability as a Percentage of Covered Employee Payroll	<u>93.06%</u>	<u>111.61%</u>	<u>121.88%</u>
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.

Palomar Community College District  
Schedule of OPEB Investment Returns  
Year Ended June 30, 2023

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	2023	2022	2021	2020	2019	2018
Annual money-weighted rate of return, net of investment expense	8.96%	(12.21%)	20.20%	4.28%	6.30%	9.20%
Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018

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

Palomar Community College District  
Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2023

Year ended June 30,	2023	2022
Proportion of the net OPEB liability	0.1169%	0.1207%
Proportionate share of the net OPEB liability	\$ 384,946	\$ 481,357
Covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	(0.94%)	(0.80%)
Measurement Date	June 30, 2022	June 30, 2021

<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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



Palomar Community College District  
Schedule of the District's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2023

	2023	2022	2021	2020	2019
<b>CalSTRS</b>					
Proportion of the net pension liability	0.0779%	0.0803%	0.0882%	0.0837%	0.0824%
Proportionate share of the net pension liability	\$ 54,104,953	\$ 36,536,269	\$ 85,507,972	\$ 75,550,191	\$ 75,692,563
State's proportionate share of the net pension liability associated with the District	27,095,549	18,383,633	44,079,370	41,217,673	43,337,533
Total	\$ 81,200,502	\$ 54,919,902	\$ 129,587,342	\$ 116,767,864	\$ 119,030,096
Covered payroll	\$ 48,126,921	\$ 46,277,944	\$ 50,705,637	\$ 52,423,520	\$ 46,626,140
Proportionate share of the net pension liability as a percentage of its covered payroll	112.42%	78.95%	168.64%	144.12%	162.34%
Plan fiduciary net position as a percentage of the total pension liability	81%	87%	72%	73%	71%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
<b>CalPERS</b>					
Proportion of the net pension liability	0.2309%	0.2429%	0.2618%	0.2584%	0.2458%
Proportionate share of the net pension liability	\$ 79,439,983	\$ 49,385,961	\$ 80,323,039	\$ 75,295,278	\$ 65,540,272
Covered payroll	\$ 35,413,082	\$ 34,856,981	\$ 37,765,002	\$ 35,817,866	\$ 32,449,366
Proportionate share of the net pension liability as a percentage of its covered payroll	224.32%	141.68%	212.69%	210.22%	201.98%
Plan fiduciary net position as a percentage of the total pension liability	70%	81%	70%	70%	71%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018

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

Palomar Community College District  
Schedule of the District's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2023

	2018	2017	2016	2015
<b>CalSTRS</b>				
Proportion of the net pension liability	0.0814%	0.0809%	0.0915%	0.0909%
Proportionate share of the net pension liability	\$ 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	44,536,657	37,240,427	32,588,912	32,075,736
Total	<u>\$ 119,819,437</u>	<u>\$ 102,656,893</u>	<u>\$ 94,206,501</u>	<u>\$ 85,195,052</u>
Covered payroll	\$ 45,243,148	\$ 41,606,198	\$ 38,026,419	\$ 40,938,175
Proportionate share of the net pension liability as a percentage of its covered payroll	166.40%	157.23%	162.04%	129.75%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>CalPERS</b>				
Proportion of the net pension liability	0.2366%	0.2221%	0.2588%	0.2756%
Proportionate share of the net pension liability	\$ 56,481,943	\$ 43,871,669	\$ 38,144,438	\$ 31,291,747
Covered payroll	\$ 28,819,657	\$ 26,587,887	\$ 31,818,546	\$ 28,936,290
Proportionate share of the net pension liability as a percentage of its covered payroll	195.98%	165.01%	119.88%	108.14%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%
Measurement Date	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.

Palomar Community College District  
Schedule of the District Contributions for Pensions  
Year Ended June 30, 2023

	2023	2022	2021	2020	2019
<b>CalSTRS</b>					
Contractually required contribution	\$ 9,947,726	\$ 8,143,075	\$ 7,473,888	\$ 8,670,664	\$ 8,534,549
Contributions in relation to the contractually required contribution	<u>(9,947,726)</u>	<u>(8,143,075)</u>	<u>(7,473,888)</u>	<u>(8,670,664)</u>	<u>(8,534,549)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 52,082,335</u>	<u>\$ 48,126,921</u>	<u>\$ 46,277,944</u>	<u>\$ 50,705,637</u>	<u>\$ 52,423,520</u>
Contributions as a percentage of covered payroll	<u>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>	<u>16.28%</u>
<b>CalPERS</b>					
Contractually required contribution	\$ 9,705,892	\$ 8,113,137	\$ 7,215,395	\$ 7,447,636	\$ 6,469,423
Contributions in relation to the contractually required contribution	<u>(9,705,892)</u>	<u>(8,113,137)</u>	<u>(7,215,395)</u>	<u>(7,447,636)</u>	<u>(6,469,423)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 38,257,359</u>	<u>\$ 35,413,082</u>	<u>\$ 34,856,981</u>	<u>\$ 37,765,002</u>	<u>\$ 35,817,866</u>
Contributions as a percentage of covered payroll	<u>25.370%</u>	<u>22.910%</u>	<u>20.700%</u>	<u>19.721%</u>	<u>18.062%</u>

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

Palomar Community College District  
Schedule of the District Contributions for Pensions  
Year Ended June 30, 2023

	2018	2017	2016	2015
<b>CalSTRS</b>				
Contractually required contribution	\$ 6,728,152	\$ 5,691,588	\$ 4,464,345	\$ 3,376,746
Contributions in relation to the contractually required contribution	<u>(6,728,152)</u>	<u>(5,691,588)</u>	<u>(4,464,345)</u>	<u>(3,376,746)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 46,626,140</u>	<u>\$ 45,243,148</u>	<u>\$ 41,606,198</u>	<u>\$ 38,026,419</u>
Contributions as a percentage of covered payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS</b>				
Contractually required contribution	\$ 5,039,711	\$ 4,002,474	\$ 3,149,867	\$ 3,745,361
Contributions in relation to the contractually required contribution	<u>(5,039,711)</u>	<u>(4,002,474)</u>	<u>(3,149,867)</u>	<u>(3,745,361)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 32,449,366</u>	<u>\$ 28,819,657</u>	<u>\$ 26,587,887</u>	<u>\$ 31,818,546</u>
Contributions as a percentage of covered payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

*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 no changes in benefit terms since the previous valuation.
- *Changes of Assumptions* - Changes of assumptions reflect a change in the discount rate from 4.88% to 5.75% 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 OPEB Liability - MPP Program**

This schedule presents information on the District's proportionate share of the net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.
- *Changes of Assumptions* – The plan rate of investment return assumption was changed from 2.16% to 3.54% since the previous valuation.

### **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 for the CalSTRS plan from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.15% to 6.90% since the previous valuation.

### **Schedule of the 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, 2023

## 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.

**Board of Trustees as of June 30, 2023**

Member	Office	Term Expires
Roberto Rodriguez	President	2024
Judy Patacsil	Vice President	2026
Michelle Rains	Secretary	2024
Jacqueline Kaiser	Trustee	2026
Cassandra Schaeg	Trustee	2024
Grant Wass	Student Trustee	2024

**Administration as of June 30, 2023**

Star Rivera-Lacey, Ph.D.	Superintendent/President
Tina Recalde, DPT, MS, ATC, CSCS	Assistant Superintendent/Vice President, Instruction
Vacant	Assistant Superintendent/Vice President, Student Services
Christine Winterle, Interim	Assistant Superintendent/Vice President, Human Resources Services
Todd McDonald, Ed.D	Assistant 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

Palomar Community College District  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed through to Subrecipients
U.S. Department of Education				
Student Financial Assistance Cluster				
Federal Pell Grant Program	84.063		\$ 13,315,526	\$ -
Federal Pell Grant Program Administrative Allowance	84.063		27,251	-
Federal Direct Student Loans	84.268		956,073	-
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		721,800	-
Federal Work-Study Program	84.033		464,933	-
Federal Work-Study Program Administrative Allowance	84.033		17,100	-
			<u>15,502,683</u>	<u>-</u>
Subtotal Student Financial Assistance Cluster				
			15,502,683	-
TRIO Cluster				
Palomar College North County Educational Opportunity Centers	84.066A		281,829	-
Student Support Services - San Marcos	84.042A		292,781	-
Upward Bound	84.047A		343,336	-
Upward Bound Rural	84.047A		323,434	-
Talent Search - Escondido	84.044A		278,306	-
Talen Search - Vista	84.044A		275,237	-
			<u>1,794,923</u>	<u>-</u>
Subtotal TRIO Cluster				
			1,794,923	-
COVID-19: Higher Education Emergency Relief				
Funds, Institutional Portion	84.425F		8,563,200	-
COVID-19: Higher Education Emergency Relief				
Funds, Student Aid Portion	84.425E		447,057	-
COVID-19: Higher Education Emergency Relief				
Funds, Minority Serving Institutions	84.425L		2,239,564	-
			<u>11,249,821</u>	<u>-</u>
Subtotal				
			11,249,821	-
Passed through California Community Colleges Chancellor's Office				
Career and Technical Education Act (CTEA), Title I, Part C	84.048A	22-C01-039	772,141	-
GEAR-UP Rural/Reservation Collaborative in Pauma, Vista, and Fallbrook	84.334A		1,351,110	-
Increasing HLI Student Participation, Persistence and Completion in STEM Education	84.031C		26,631	13,355
			<u>30,697,309</u>	<u>13,355</u>
Total U.S. Department of Education				
			30,697,309	13,355
U.S. Department of the Treasury				
Passed through California Community Colleges Chancellor's Office				
COVID-19: Coronavirus State and Local Fiscal Recovery Funds	21.027	[1]	2,084,065	-
			<u>2,084,065</u>	<u>-</u>
Total U.S. Department of the Treasury				
			2,084,065	-

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



Palomar Community College District  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed through to Subrecipients
U.S. Department of Agriculture Passed through California Department of Education Child and Adult Care Food Program	10.558	13666	\$ 52,395	\$ -
Total U.S. Department of Agriculture			<u>52,395</u>	<u>-</u>
National Science Foundation Research and Development Cluster Passed through Southwestern Community College District Expanding Educational Opportunities for Secondary and Post-Secondary Educators and Students in the Technology and Applications of Unmanned Aircraft Systems	47.076	2201214	24,733	-
Subtotal Research and Development Cluster			<u>24,733</u>	<u>-</u>
U.S. Department of Veterans Affairs Veterans Services	64.028		16,947	-
Total U.S. Department of Veterans Affairs			<u>16,947</u>	<u>-</u>
U.S. Department of Health and Human Services Passed through California Community Colleges Chancellor's Office Temporary Assistance for Needy Families (TANF)	93.558	[1]	54,374	-
CCDF Cluster Passed through Yosemite Community College District Child Development Training Consortium Child Care and Development Block Grant	93.575	22-23-4164	47,888	-
Subtotal CCDF Cluster			<u>47,888</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>102,262</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 32,977,711</u>	<u>\$ 13,355</u>

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

Palomar Community College District

Schedule of Expenditures of State Awards

Year Ended June 30, 2023

Program	Program Revenues				Program Expenditures
	Cash Received	Accounts Receivable / (Payable)	Unearned Revenue	Total Revenue	
Access to Print Carryover	\$5,247	\$ -	\$ -	\$ 5,247	\$ 5,247
Basic Needs Center SB129	774,248	-	766,837	7,411	7,411
Basic Skills Initiative Carryover	585,537	-	-	585,537	585,537
BFAP Augmentation Carryover	179,755	-	-	179,755	179,755
BFAP, BRD Financial Assistance Program	163,810	-	16,669	147,141	147,141
CA Articulation Number System	970	-	-	970	970
CAL Law Grant	60,000	-	56,305	3,695	3,695
CALFresh Outreach SB85	42,696	-	26,636	16,060	16,060
California College Promise	3,653,120	-	2,124,023	1,529,097	1,529,097
California State Preschool Program	467,727	-	-	467,727	467,727
CALWORKS	379,023	-	80,893	298,130	298,130
CALWORKS Carryover	23,536	-	-	23,536	23,536
CCC Associate Degree Nursing Carryover	20,876	-	-	20,876	20,876
Classified Professional Development	75,857	-	75,857	-	-
COVID-19 Recovery Block Grant FY22-23	9,565,975	-	1,948,301	7,617,674	7,617,674
CRPP Innovative Best Practices	149,950	-	149,950	-	-
Culturally Competent Faculty	50,435	-	20,494	29,941	29,941
Deaf & Hard of Hearing (DHH)	107,760	-	69,157	38,603	38,603
Deaf & Hard of Hearing (DHH) Carryover	56,273	-	-	56,273	56,273
Disabled Student Programs & Services (DSPS)	1,885,179	-	776,265	1,108,914	1,108,914
DSPS Carryover	516,826	-	-	516,826	516,826
Extended Opportunity Program & Services (EOPS)	1,354,788	-	81,766	1,273,022	1,273,022
EOPS, CARE	272,422	-	29,059	243,363	243,363
EOPS Carryover	56,674	-	-	56,674	56,674
EOPS, CARE Carryover	1,986	-	-	1,986	1,986
Equal Employment Opportunity	124,831	-	-	124,831	124,831
Financial Aid Technology	105,805	-	-	105,805	105,805

Palomar Community College District

Schedule of Expenditures of State Awards

Year Ended June 30, 2023

Program	Program Revenues				Program Expenditures
	Cash Received	Accounts Receivable/ (Payable)	Unearned Revenue	Total Revenue	
FY1819 Hunger Free Campus Support	\$ 22,881	\$ -	\$ 10,153	\$ 12,728	\$ 12,728
Golden State ETGP	350	-	350	-	-
Guided Pathways	301,459	-	-	301,459	301,459
GUIDED PATHWAYS 2.0	616,059	-	612,803	3,256	3,256
Innovation in Higher Education	1,070,585	-	929,626	140,959	140,959
LGBTQ+ Support AB132	127,529	-	127,529	-	-
Library Services Platform	19,418	-	5,797	13,621	13,621
Local System-wide Technology & Data Security	300,000	-	300,000	-	-
Learning Aligned Employment Program (LEAP)	3,292,021	-	3,290,481	1,540	1,540
Mental Health Services	33,739	-	-	33,739	33,739
Mental Health Support	679,933	-	288,438	391,495	391,495
Military Leadership Apprenticeship	-	231,945	-	231,945	231,945
Native American SSSP	600,000	-	600,000	-	-
NEXTUP	1,090,804	-	1,025,219	65,585	65,585
Nursing Education	210,300	-	56,023	154,277	154,277
Retention & Outreach SB85	4,357,476	(1,021,757)	2,926,681	409,038	409,038
Rising Scholars Network	-	129,550	-	129,550	129,550
SG13 CCAP	4,866	-	-	4,866	4,866
SSSP Carryover Funds	2,421,449	-	-	2,421,449	2,421,449
State BFAP Augmentation	591,854	-	168,806	423,048	423,048
State BFAP Carryover	83,959	-	-	83,959	83,959
State Veterans Resource Center	932,856	-	554,417	378,439	378,439
Strong Workforce	60,105	-	-	60,105	60,105
Strong Workforce FY21-22	1,730,552	-	233,207	1,497,345	1,497,345
Strong Workforce FY22-23	2,677,929	-	2,059,952	617,977	617,977
Student Equity Carryover Funds	2,213,449	-	-	2,213,449	2,213,449
Student Food and Housing Support	636,093	-	613,909	22,184	22,184
Student Success Completion	6,119,358	-	3,878,243	2,241,115	2,241,115

Palomar Community College District

Schedule of Expenditures of State Awards

Year Ended June 30, 2023

Program	Program Revenues				Program Expenditures
	Cash Received	Accounts Receivable/ (Payable)	Unearned Revenue	Total Revenue	
TTIP South	\$ 3,578,805	\$ 52,580	\$ 865,581	\$ 2,765,804	\$ 2,765,804
TTIP South Carryover	747,005	-	-	747,005	747,005
Undocumented Resource Liaison	258,893	-	166,953	91,940	91,940
Veteran's Center Remodel	-	8,507	-	8,507	8,507
Veteran's Program	203,497	-	203,497	-	-
YESS-ILP	18,349	1,269	-	19,618	19,618
Zero Textbook Phase 1	20,000	-	19,874	126	126
Zero Textbook Phase 3	180,000	-	180,000	-	-
Total state programs	<u>\$ 55,932,879</u>	<u>\$ (597,906)</u>	<u>\$ 25,339,751</u>	<u>\$ 29,995,222</u>	<u>\$ 29,995,222</u>

Palomar Community College District  
Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance  
Year Ended June 30, 2023

CATEGORIES	Reported Data**	Audit Adjustments	Audited Data
<b>A. Summer Intersession (Summer 2022 only)</b>			
1. Noncredit*	51.63	-	51.63
2. Credit	1,159.87	-	1,159.87
<b>B. Summer Intersession (Summer 2023 - Prior to July 1, 2023)</b>			
1. Noncredit*	7.89	-	7.89
2. Credit	92.06	-	92.06
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	5,436.62	-	5,436.62
(b) Daily Census Contact Hours	297.16	-	297.16
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	251.46	-	251.46
(b) Credit	521.05	-	521.05
3. Alternative Attendance Accounting Procedure Courses			
(a) Weekly Procedure Courses	3,720.78	-	3,720.78
(b) Daily Procedures Courses	1,547.98	-	1,547.98
(c) Noncredit Independent Study/Distance Education Courses	208.97	-	208.97
<b>D. Total FTES</b>	<u>13,295.47</u>	<u>-</u>	<u>13,295.47</u>
<b>SUPPLEMENTAL INFORMATION (Subset of Above Information)</b>			
<b>E. In-Service Training Courses (FTES)</b>	118.89	-	118.89
<b>F. Basic Skills Courses and Immigrant Education</b>			
1. Noncredit*	471.87	-	471.87
2. Credit	94.15	-	94.15
<b><u>CCFS-320 Addendum</u></b>			
CDCP Noncredit FTES	348.22	-	348.22
<b>Centers FTES</b>			
1. Noncredit*	153.20	-	153.20
2. Credit	1,043.53	-	1,043.53

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

\*\* The District submitted a Recalc on November 1, 2023.

Palomar Community College District  
Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation  
Year Ended June 30, 2023

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799			
		Object/ TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>								
Instructional Salaries								
Contract or Regular	1100	\$ 25,299,255	\$ -	\$ 25,299,255	\$ 25,299,255	\$ -	\$ 25,299,255	
Other	1300	17,047,059	-	17,047,059	17,047,059	-	17,047,059	
Total Instructional Salaries		42,346,314	-	42,346,314	42,346,314	-	42,346,314	
Noninstructional Salaries								
Contract or Regular	1200	-	-	-	11,114,896	-	11,114,896	
Other	1400	-	-	-	1,000,239	-	1,000,239	
Total Noninstructional Salaries		-	-	-	12,115,135	-	12,115,135	
Total Academic Salaries		42,346,314	-	42,346,314	54,461,449	-	54,461,449	
<u>Classified Salaries</u>								
Noninstructional Salaries								
Regular Status	2100	-	-	-	21,891,674	-	21,891,674	
Other	2300	-	-	-	1,352,434	-	1,352,434	
Total Noninstructional Salaries		-	-	-	23,244,108	-	23,244,108	
Instructional Aides								
Regular Status	2200	1,853,657	-	1,853,657	1,853,658	-	1,853,658	
Other	2400	613,424	-	613,424	613,425	-	613,425	
Total Instructional Aides		2,467,081	-	2,467,081	2,467,083	-	2,467,083	
Total Classified Salaries		2,467,081	-	2,467,081	25,711,191	-	25,711,191	
Employee Benefits	3000	17,863,421	-	17,863,421	37,568,187	-	37,568,187	
Supplies and Material	4000	-	-	-	1,008,369	-	1,008,369	
Other Operating Expenses	5000	-	-	-	9,959,949	-	9,959,949	
Equipment Replacement	6420	-	-	-	38,482	-	38,482	
Total Expenditures								
Prior to Exclusions		62,676,816	-	62,676,816	128,747,627	-	128,747,627	

Palomar Community College District  
Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation  
Year Ended June 30, 2023

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799			
		Object/ TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>								
Activities to Exclude								
Instructional Staff - Retirees' Benefits and Retirement Incentives		5900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Student Health Services Above Amount Collected		6441	-	-	-	-	-	-
Student Transportation		6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives		6740	-	-	-	-	-	-
Objects to Exclude								
Rents and Leases		5060	-	-	-	94,801	-	94,801
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			-	-	-	-	-	-

Palomar Community College District  
Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation  
Year Ended June 30, 2023

	Object/ TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 4,155,503	\$ -	\$ 4,155,503
Capital Outlay	6000						
Library Books	6300	-	-	-	129	-	129
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	450,240	-	450,240
Equipment - Replacement	6420	-	-	-	38,482	-	38,482
Total Equipment		-	-	-	488,722	-	488,722
Total Capital Outlay		-	-	-	488,851	-	488,851
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	4,739,155	-	4,739,155
Total for ECS 84362, 50% Law		\$ 62,676,816	\$ -	\$ 62,676,816	\$ 124,008,472	\$ -	\$ 124,008,472
% of CEE (Instructional Salary Cost/Total CEE)		50.54%		50.54%	100.00%		100.00%
50% of Current Expense of Education					\$ 62,004,236		\$ 62,004,236



Palomar Community College District  
Proposition 30 Education Protection Account (EPA) Expenditure Report  
Year Ended June 30, 2023

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Activity Classification	Object Code	Unrestricted			
EPA Revenues:	8630				
					\$ 19,885,871
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 19,885,871	\$ -	\$ -	\$ 19,885,871
Total Expenditures for EPA		\$ 19,885,871	\$ -	\$ -	\$ 19,885,871
Revenues Less Expenditures					\$ -

Palomar Community College District  
Reconciliation of Governmental Funds to the Statement of Net Position  
Year Ended June 30, 2023

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Amounts reported for governmental activities in the Statement of Net Position are different because

Total fund balance and retained earnings		
General Funds	\$ 59,214,004	
Special Revenue Funds	3,463,145	
Capital Project Funds	178,895,855	
Debt Service Funds	27,342,798	
Internal Service Funds	<u>13,525,000</u>	
Total fund balance and retained earnings - all District funds		\$ 282,440,802

Capital assets and right-to-use subscription IT 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	643,599,540	
Accumulated depreciation is	(134,588,267)	
The cost of right-to-use subscription IT assets is	1,507,555	
Accumulated amortization is	<u>(704,393)</u>	
Total capital assets and right-to-use subscription IT assets, net		509,814,435

Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the District's funds.

Deferred outflows of resources at year-end consist of:		
Deferred outflows of resources related to debt refunding	31,135,280	
Deferred outflows of resources related to OPEB	7,784,411	
Deferred outflows of resources related to pensions	<u>41,482,792</u>	
Total deferred outflows of resources		80,402,483

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.

(7,679,740)

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	(661,607,003)	
Lease revenue bonds	(1,310,000)	
Compensated absences	(4,571,806)	
Load banking	(691,783)	
Subscription-based IT arrangements	(803,162)	
Aggregate net other postemployment benefits (OPEB) liability	(74,051,130)	
Aggregate net pension liability	(133,544,936)	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is	<u>(86,481,765)</u>	
Total long-term liabilities		(963,061,585)

Palomar Community College District  
Reconciliation of Governmental Funds to the Statement of Net Position  
Year Ended June 30, 2023

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Deferred inflows of resources represent an acquisition of net position in a future period and is not reported in the District's funds.

Deferred inflows of resources amount to and related to:

Deferred inflows of resources related to OPEB	\$ (15,302,491)
Deferred inflows of resources related to pensions	<u>(21,915,290)</u>

Total deferred inflows of resources	<u>\$ (37,217,781)</u>
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Total net position (deficit)	<u><u>\$ (135,301,386)</u></u>
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**Note 1 - Purpose of Schedules****District Organization**

This schedule provides information about the District's governing board members, administration members, and auxiliary organizations in good standing.

**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, 2023. 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 10% de minimis cost rate.

**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.

**Proposition 30 Education Protection Account (EPA) Expenditure Report**

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

**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, 2023

# 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***

To the 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 (*Government Auditing Standards*), the financial statements of the business-type activities and the remaining fund information of the Palomar Community College District (the District) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2023.

***Adoption of New Accounting Standard***

As discussed in Note 2 and Note 14 to the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ending June 30, 2023. As a result of implementing the standard, there was no effect on the District's business-type activities net position as of July 1, 2022. Our opinions are not modified with respect to this matter.

***Report on 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 or significant deficiencies may exist that were not identified.

### ***Report on 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
December 21, 2023





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

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

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

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

We have audited Palomar Community College District's (the District) compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

In our opinion, the Palomar Community College District complied, in all material respects, with the 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, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's responses to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's responses to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.



Rancho Cucamonga, California  
December 21, 2023



## Independent Auditor's Report on State Compliance

To the 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 2022-2023 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, 2023.

### Opinion

In our opinion, the Palomar Community College District complied, in all material respects, with the compliance requirements referred to above that are applicable to the State programs noted in the table below that were audited for the year ended June 30, 2023.

### Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the standards and procedures identified in the 2022-2023 California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on state compliance with the compliance requirements subject to audit in the 2022-2023 California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

### Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's compliance with the requirements listed in the table below.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements listed in the table below has occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the 2022-2023 California Community Colleges Chancellor's Office *Contracted District Audit Manual* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements listed in the table below.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the 2022-2023 California Community Colleges Chancellor's Office *Contracted District Audit Manual*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit 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 over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any material noncompliance with the requirements listed in the table below that we identified during the audit.

### ***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 412	SCFF Supplemental Allocation Metrics
Section 413	SCFF Success Allocation Metrics
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)
Section 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 444	Apprenticeship Related and Supplemental Instruction (RSI) Funds
Section 475	Disabled Student Programs and Services (DSPS)
Section 490	Propositions 1D and 51 State Bond Funded Projects
Section 491	Education Protection Account Funds
Section 492	Student Representation Fee
Section 494	State Fiscal Recovery Fund
Section 499	COVID-19 Response Block Grant Expenditures

The District received no funding through Propositions 1D and 51 State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

The State Fiscal Recovery Fund was included as a major federal program, as described in the summary of auditor's results; therefore, the compliance requirements within this section were not performed.

The purpose of this report on State compliance is solely to describe the results of our testing based on the requirements of the 2022-2023 California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California  
December 21, 2023



Schedule of Findings and Questioned Costs  
June 30, 2023

# Palomar Community College District

## **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	Yes
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(a):	Yes

## **Identification of major programs:**

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Listing Number</u>
Student Financial Assistance Cluster	84.063, 84.268, 84.007, 84.033
COVID-19: Higher Education Emergency Relief Funds, Institutional Portion	84.425F
COVID-19: Higher Education Emergency Relief Funds, Student Aid Portion	84.425E
COVID-19: Higher Education Emergency Relief Funds, Minority Serving Institutions	84.425L
GEAR-UP Rural/Reservation Collaborative in Pauma, Vista, and Fallbrook	84.334A
COVID-19: Coronavirus State and Local Fiscal Recovery Funds	21.027
Dollar threshold used to distinguish between type A and type B programs:	\$989,331
Auditee qualified as low-risk auditee?	No

## **STATE COMPLIANCE**

Type of auditor's report issued on compliance for state programs:	Unmodified
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None reported.

The following findings represent significant deficiencies in internal control over compliance and instances of noncompliance including questioned costs that are required to be reported by the Uniform Guidance.

**2023-001      Special Tests and Provisions – Enrollment Reporting**

**Program Name:** Student Financial Assistance Cluster

**Federal Assistance Listing Numbers:** 84.007, 84.033, 84.063, and 84.268

**Federal Agency:** U.S. Department of Education (ED)

Direct funded by the U.S. Department of Education (ED)

**Criteria or Specific Requirements**

OMB Compliance Supplement, OMB No. 1845-0035 – Institutions are required to report enrollment information under the Pell grant and the Direct and FFEL loan programs via the National Student Loan Data System (NSLDS).

Institutions must review, update, and verify student enrollment statuses, program information, and effective dates that appear on the Enrollment Reporting Roster file or on the Enrollment Maintenance page of the NSLDS Professional Access (NSLDSFAP) website which the financial aid administrator can access for the auditor. The data on the institutions' Enrollment Reporting Roster, or Enrollment Maintenance page, is what NSLDS has as the most recently certified enrollment information. There are two categories of enrollment information: "Campus Level" and "Program Level", both of which need to be reported accurately and have separate record types. The NSLDS Enrollment Reporting Guide provides the requirements and guidance for reporting enrollment details using the NSLDS Enrollment Reporting Process.

**Condition**

*Significant Deficiency in Internal Control over Compliance* – The following deficiencies were noted:

- 53 of 60 students' effective dates were not accurately reported in NSLDS (date of change do not agree to effective dates).
- 12 of 60 students' enrollment statuses were not accurately reported in NSLDS (status per student accounts do not agree to status per NSLDS).
- 59 of 60 students' program begin date were not accurately reported in NSLDS (student's program start date does not agree to program begin date per NSLDS).

**Questioned Costs**

There are no questioned costs associated with this finding.

**Context**

We tested a non-statistical sample of 60 student status changes of a total 287 changes reported by the District during the 2023 fiscal year.

**Effect**

The District is not in compliance with the Federal enrollment reporting requirements described in the OMB Compliance Supplement.

**Cause**

The District did not report enrollment information for students under the Pell Grant and Direct Loan Programs via NSLDS timely or accurately due to an error in data mapping within the student information systems database prior to submission to National Student Clearinghouse.

**Repeat Finding (Yes or No)**

No.

**Recommendation**

The District should implement a process to review, update, and verify student enrollment statuses, program information, and effective dates that appear on the Enrollment Reporting Roster file or on the Enrollment Maintenance page of the NSLDS Professional Access (NSLDSFAP) website.

**View of Responsible Officials and Corrective Action Plan**

The District is conducting a review of its processes for NSLDS reporting to improve accuracy and has provided training to ensure multiple individuals are able to perform the necessary procedures for submitting NSLDS reports.

**2023-002 Special Tests and Provisions – Return to Title IV**

**Program Name:** Student Financial Assistance Cluster

**Federal Assistance Listing Number:** 84.007, 84.033, 84.063, and 84.268

**Federal Agency:** U.S. Department of Education (ED)

Direct funded by the U.S. Department of Education (ED)

**Criteria or Specific Requirements**

34 CFR section 668.173(b)

Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

34 CFR section 668.22(c):

If an institution is not required to take attendance, the withdrawal date is (1) the date, as determined by the institution, that the student began the withdrawal process prescribed by the institution; (2) the date, as determined by the institution, that the student otherwise provided official notification to the school, in writing or orally, of his or her intent to withdraw; (3) if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment; (4) if the institution determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss or other circumstances beyond the student's control, the date the institution determines is related to that circumstance; (5) if a student does not return from an approved leave of absence, the date that the institution determines the student began the leave of absence; or (6) if the student takes an unapproved leave of absence, the date that the student began the leave of absence.

**Condition**

*Significant Deficiency in Internal Control over Compliance* – 10 of the 60 Return to Title IV calculations were incorrectly calculated due to an error in the count of scheduled breaks entered into the financial aid software.

**Questioned Costs**

There are no questioned costs associated with this finding. All funds were returned, however, not within the 45-day requirement.

**Context**

We tested a non-statistical sample of 60 Return to Title IV calculations of a total 185 calculations performed by the District during the 2023 fiscal year.

**Effect**

Without proper monitoring of the timing of student withdrawals and calculations of Return to Title IV, the District risks noncompliance with the above referenced criteria.

**Cause**

The District did not implement procedures to ensure that the return to Title IV funds were calculated timely and accurately, and returned in a timely manner.

**Repeat Finding (Yes or No)**

No.

**Recommendation**

The District should establish effective controls to ensure the return of funds occurs within 45 days from the date the institution determines the student withdrew from all classes and that the withdrawal determination is performed within the required timeframe. Additionally, the District should implement procedures to ensure that the academic calendar loaded in the financial aid software is accurate and based on the most up to date information. The District should also implement procedures to ensure that the correct student status is utilized in the calculation of Return to Title IV.

**Views of Responsible Officials and Corrective Action Plan**

The District has modified the business practice for returning Title IV funds to improve the calculation of when funds are due and provided training to ensure multiple individuals are able to perform the necessary procedures for returning Title IV funds.

None reported.

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