

PALOMAR COMMUNITY COLLEGE DISTRICT

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

For the Year Ended June 30, 2011

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

June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Palomar Community College District (the District), as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated December 9, 2011. We have also audited the accompanying Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Prop M Bond Construction Fund – Proposition M Bond Program of the District as of and for the year ended June 30, 2011. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit of the Prop M Bond Construction Fund – Proposition M Bond Program 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements for the Prop M Bond Construction Fund – Proposition M Bond Program are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Prop M Bond Construction Fund – Proposition M Bond Program financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations for the Prop M Bond Construction Fund – Proposition M Bond Program of the District as of June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 9, 2011

PALOMAR COMMUNITY COLLEGE DISTRICT

**BALANCE SHEET
PROP M BOND CONSTRUCTION FUND -
PROPOSITION M BOND PROGRAM**

June 30, 2011

ASSETS

Cash in County Treasury	\$ 205,995,728
Interest Receivable	284,308
Due From District (Note 3)	<u>8,598</u>
TOTAL ASSETS	<u>\$ 206,288,634</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 2,875,126
Compensated Absences Payable	22,756
Due To District (Note 3)	<u>21,846</u>
TOTAL LIABILITIES	<u>2,919,728</u>

FUND BALANCE

Restricted	<u>203,368,906</u>
TOTAL FUND BALANCE	<u>203,368,906</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 206,288,634</u>
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See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE

PROP M BOND CONSTRUCTION FUND -

PROPOSITION M BOND PROGRAM

For the Year Ended June 30, 2011

REVENUES

Investment Income	\$ 1,328,554
TOTAL REVENUES	<u>1,328,554</u>

EXPENDITURES

Salaries	269,716
Benefits	137,951
Other Expenses and Services	3,101,427
Capital Outlay	<u>21,021,066</u>
TOTAL EXPENDITURES	<u>24,530,160</u>

Deficiency of Revenues over Expenditures	<u>(23,201,606)</u>
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OTHER FINANCING SOURCES

Proceeds from the Sale of Bonds	<u>174,998,901</u>
TOTAL OTHER FINANCING SOURCES	<u>174,998,901</u>

Net Change in Fund Balance	151,797,295
Fund Balance at Beginning of Year	<u>51,571,611</u>
Fund Balance at End of Year	<u><u>\$ 203,368,906</u></u>

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - PROP M BOND CONSTRUCTION FUND -
PROPOSITION M BOND PROGRAM
For the Year Ended June 30, 2011**

	<u>Budget *</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Investment Income	\$ 250,000	\$ 1,328,554	\$ 1,078,554
TOTAL REVENUES	<u>250,000</u>	<u>1,328,554</u>	<u>1,078,554</u>
EXPENDITURES			
Salaries	270,500	269,716	784
Benefits	139,600	137,951	1,649
Other Expenses and Services	3,110,000	3,101,427	8,573
Capital Outlay	<u>222,990,220</u>	<u>21,021,066</u>	<u>201,969,154</u>
TOTAL EXPENDITURES	<u>226,510,320</u>	<u>24,530,160</u>	<u>201,980,160</u>
Deficiency of Revenues over Expenditures	(226,260,320)	(23,201,606)	203,058,714
OTHER FINANCING SOURCES			
Proceeds from the Sale of Bonds	<u>174,998,901</u>	<u>174,998,901</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>174,998,901</u>	<u>174,998,901</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (51,261,419)</u>	151,797,295	<u>\$ 203,058,714</u>
Fund Balance at Beginning of Year		<u>51,571,611</u>	
Fund Balance at End of Year		<u>\$ 203,368,906</u>	

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

See the accompanying notes to the financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ACCOUNTING POLICIES

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

FUND STRUCTURE

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

BASIS OF ACCOUNTING

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

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

BUDGET

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

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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

FUND BALANCE CLASSIFICATION

The governmental fund financial statements present fund balance classifications that comprise a hierarchy based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts can be spent. The classifications available in governmental fund financial statements are nonspendable, restricted, committed, assigned and unassigned. The fund balance of the Prop M Bond Program is restricted as described below:

Restricted: Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

CAPITAL ASSETS AND LONG-TERM DEBT

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

ESTIMATES

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

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2 - DEPOSITS – CASH IN COUNTY TREASURY:

In accordance with Education Code Section 41001, the District maintains all of its cash in the San Diego County Treasury as part of the common investment pool. These pooled funds are carried at cost which may differ from fair value. The fair market value of the District's deposits for the Bond Construction Fund – Measure M Bond Program in this pool as of June 30, 2011, as provided by the pool sponsor, was \$206,000,615, which is 100.33% of historical cost.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

NOTE 3 – DUE TO/FROM DISTRICT:

Interfund receivable for \$8,598 is predominantly due to a transfer for expenses related to the Multi-Disciplinary Building that will be funded by the State. Interfund payable for \$21,846 is due to employee benefits.

NOTE 4 – PURCHASE COMMITMENTS:

As of June 30, 2011, the District was committed under various capital expenditure purchase agreements for various projects totaling approximately \$19,780,000 to be funded from bond proceeds.

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

NOTE 5 – GENERAL OBLIGATION BONDS:

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

On October 28, 2010, the District issued General Obligation Bonds, Election of 2006, Series B of \$1,500,000 of current interest bonds, \$27,883,491 of capital appreciation bonds and \$62,115,410 of convertible capital appreciation bonds and Series B-1 of \$83,500,000 of Build America Bonds. The bonds will mature through 2046. The bonds were sold to finance the repair, construction, acquisition and equipping of certain District sites and facilities and to pay costs of issuance associated with the Bonds.

The Series B-1 bonds are designated as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009. With respect to the Series B-1 bonds, the District expects to receive, on or about each bond payment date, a cash subsidy payment from the United States Treasury equal to the amount of interest determined at a federal tax credit rate under Section 54A(b)(3) of the tax code. The District will deposit the cash subsidy with the County to be credited to the Bond Interest and Redemption Fund for debt service payments.

Payments

Series A interest due is payable semi-annually on May 1 and November 1 of each year commencing November 1, 2007. Series B and B-1 interest due is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2011. The principal with respect to the bonds is payable upon maturity or upon redemption in whole or in part at the corporate trust office of the Paying Agent. The bonds are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof.

Capital appreciation and convertible capital appreciation bonds issued for Series B have maturity dates from August 1, 2015 through August 1, 2035 and August 1, 2039 and August 1, 2045. Prior to the maturity date, the bond will accrete interest on the principal component.

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

NOTE 5 – GENERAL OBLIGATION BONDS:

Payments (continued)

The outstanding bonded debt for Palomar Community College District at June 30, 2011 is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2010	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2011
2006A	5/2/2007	4.25% - 5.0%	2032	\$ 160,000,000	\$ 149,845,000	\$	\$ 2,315,000	\$ 147,530,000
2010B	10/28/2010	2.36% - 6.72%	2046	91,498,901		91,498,901		91,498,901
2010B-1	10/28/2010	7.19%	2046	83,500,000		83,500,000		83,500,000
				<u>\$ 334,998,901</u>	<u>\$ 149,845,000</u>	<u>\$ 174,998,901</u>	<u>\$ 2,315,000</u>	<u>\$ 322,528,901</u>

The Series A and Series B bonds included a premium which is reported on the District's basic financial statements.

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2010, are as follows:

Year Ended June 30,	Principal	Interest	Accreted Interest	Interest Subsidy	Total
2012	\$ 3,955,000	\$ 14,385,341	\$	\$ (2,563,816)	\$ 15,776,525
2013	2,745,000	12,936,565		(2,102,446)	13,579,119
2014	3,060,000	12,813,040		(2,102,446)	13,770,594
2015	3,395,000	12,675,340		(2,102,446)	13,967,894
2016	4,015,650	12,505,590	29,350	(2,102,446)	14,448,144
2017-2021	29,449,995	59,291,200	1,630,005	(10,512,230)	79,858,970
2022-2026	47,606,526	54,880,360	11,873,474	(10,512,230)	103,848,130
2027-2031	59,426,306	74,184,256	8,613,694	(10,512,230)	131,712,026
2032-2036	26,394,452	85,272,638	40,305,548	(10,512,230)	141,460,408
2037-2041	41,670,705	65,860,945	65,679,295	(10,512,230)	162,698,715
2042-2046	100,810,267	28,301,314	42,359,733	(7,660,716)	163,810,598
Totals	<u>\$ 322,528,901</u>	<u>\$ 433,106,589</u>	<u>\$ 170,491,099</u>	<u>\$ (71,195,466)</u>	<u>\$ 854,931,123</u>

NOTE 6 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

No excess of expenditures over appropriations, by major object accounts, occurred in the Prop M Bond Construction Fund – Proposition M Bond Program.

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

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

We have audited the financial statements of Prop M Bond Construction Fund – Proposition M Bond Program of the Palomar Community College District (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 financial statements will not be prevented or detected and corrected on a timely basis.

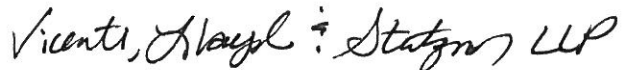
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Prop M Bond Construction Fund – Proposition M Bond Program of the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests of the Prop M Bond Construction Fund – Proposition M Bond Program disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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


VICENTI, LLOYD & STUTZMAN LLP

December 9, 2011

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

**SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

There were no findings and questioned costs related to the financial audit of the Prop M Bond Construction Fund – Proposition M Bond Program for the fiscal years ended June 30, 2011 and June 30, 2010.