CPAs & BUSINESS ADVISORS

February 9, 2022

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

We have audited the financial statements of Palomar Community College District (the District) as of and for the year ended June 30, 2021, and have issued our report thereon dated February 9, 2022. Professional standards require that we advise you of the following matters relating to our audit.

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

As communicated in our letter dated May 14, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the District complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

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

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

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

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated February 9, 2022. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated February 9, 2022.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 2 to the financial statements. As described in Notes 2 and 14 to the financial statements, the District changed accounting policies related to accounting for fiduciary activities to adopt the provisions of GASB Statement No. 84, *Fiduciary Activities*. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

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

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

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

Management's estimate of lost revenues associated with certain federal programs is based on the District's interpretation of the enabling laws and regulations, as well as the assumptions used in their methodology for identifying and quantifying lost revenues.

Financial Statement Disclosures

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

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

The following misstatements were identified and corrected by management:

Primary Government	
Overstatement of investments	$192,372,122

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

Primary Government

Understatement of Cash in County Treasury (fair market value adjustment)*	$1,054,622

*Fair market value was not adjusted because gains or losses generally do not materialize due to the nature of the investment in the county treasury pool. Redemptions of this investment are generally at face value. This accounting policy treatment is consistent with prior years.

The effect of these uncorrected misstatements as of and for the year ended June 30, 2021, is an understatement of change in net position of $1,054,622, and understatement of net position of $1,054,622 for the primary government.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated February 9, 2022.

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

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

Modification of the Auditor's Report

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

Emphasis of Matter

Change in Accounting Principle
As discussed in Note 2 and Note 13 to the financial statements, the District adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which resulted in a restatement of net position as of July 1, 2020. Our opinions are not modified with respect to this matter.

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

Eide Bailly LLP

Rancho Cucamonga, California

Financial Statements
June 30, 2021

Palomar Community College District

Independent Auditor's Report

Board of Trustees
Palomar Community College District
San Marcos, California

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities and the remaining fund information of Palomar Community College District (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the remaining fund information of the District as of June 30, 2021, 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.

Emphasis of Matter – Change in Accounting Principle
As discussed in Note 2 and Note 13 to the financial statements, the District adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which resulted in a restatement of net position as of July 1, 2020. Our opinions are not modified with respect to this matter.

Other Matters

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 21 and other required supplementary schedules on pages 65 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards, as required by the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and other supplementary information listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and other supplementary information listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Eide Bailly LLP

Rancho Cucamonga, California
February 9, 2022

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, 2021 and 2020. 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 1.8 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 2020-21 a total of 4,633 degrees and certificates were earned by students. At Palomar, students may choose from a variety of courses and programs offered through face-to-face, distance education, or in a hybrid format that lead to associate degrees, certificates of achievement, and/or transfer to four-year institutions.

Our vision is "***Learning for Success***" and it is our mission "*to provide an engaging teaching and learning environment for students of diverse origins, experiences, needs, abilities, and goals. As a comprehensive community college, we support and encourage our students who are pursuing transfer-readiness, general education, basic skills, career and technical training, aesthetic and cultural enrichment, and lifelong education.*" The District promotes open access and celebrates the diversity of its students, faculty, staff, and the community. Annually, we serve about 35,000 full-time and part-time students. Approximately 34% of students are enrolled full-time in credit courses, while about 62% are enrolled part-time in credit courses, and 4% are enrolled in noncredit courses. About 64% of our students are 24 and under, while 36% are 25 and older. The diversity of our students and employees creates a dynamic, exciting environment in which to work and learn. We are proud to have been designated by the U.S. Department of Education as a Hispanic-serving institution.

A community-elected five-member Governing Board governs Palomar Community College District. Each member is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two or three available positions. The Board also seats an elected student trustee as a 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, which includes the goal of closing achievement gaps for historically underrepresented students by 2022. The new formula supports access through enrollment-based funding and also focuses on rewarding student equity and success by targeting funds to districts serving low-income students and by providing additional resources for students' successful outcomes. The SCFF includes three components (1) Basic Allocation, based on the number of colleges and state-approved education centers, together with funding based on per-student rates for traditional credit FTES, incarcerated credit FTES, special admit credit FTES, non-credit FTES, and career development and college preparation (CDCP) non-credit FTES (2) Supplemental Allocation, based on the number of certain types of low-income students, and (3) Student Success Allocation, calculated using various performance-based metrics.

In 2020-21, the District's Governing Board adopted a total budget of $600,680,529, of which $152,644,238 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 $28,575,672 or 23.09% of total expenditures and outgo. This reflects a $7,763,320 increase in fund balance from the prior year, based on the modified accrual basis of accounting. A portion of the ending fund balance is set aside to meet the Governing Board's minimum reserve level of 7% (or Chancellor's Office recommended reserve level of 5% of expenditures) for economic uncertainties. The balance above the 7% reserve level has been earmarked to address or partially address certain unfunded cost escalations in the coming years. The CCFS-311 report focuses on fund types rather than on the District as a whole.

MEASURE M (2006) $694 MILLION GENERAL OBLIGATION BOND

Palomar Community College District has been providing quality education to its service area residents for over 70 years. In August 2003, the College completed the comprehensive Educational and Facilities Master Plan 2022, containing the identified needs of the District and the community; these include: construction of new instructional and support buildings, modernization of existing buildings, infrastructure upgrades, equipping the District sites and facilities, and the development of two educational centers in Fallbrook and Rancho Bernardo. In November 2006 General Election, 57.9% of registered voters approved Measure M, a $694 million educational facilities bond measure. The total proposition is funded through the sale of several series of bonds. The bonds are general obligations of the District payable solely from the proceeds of *ad valorem* property taxes levied by the San Diego County Board. The amount of the *ad valorem* taxes to repay the bonds is determined by the relationship between the assessed valuation of taxable property within the District's jurisdiction and the amount of debt service due on the bonds in any year. As of June 30, 2021, the taxable properties within the District's jurisdiction have an assessed valuation of $139.9 billion for the upcoming 2021-22 assessment year (County of San Diego Assessor's Office, 6/30/20).

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

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

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

S&P Global Ratings assigned its "AA" long-term rating to Palomar Community College District in April 2017 and reaffirmed the same rating with a Stable Outlook in October 2020 and again in August 2021. The District's diverse economic base, coupled with strong to good income levels, improved financial performance based on fiscal year 2020 closing projections, solid reserves, and access to alternate liquidity were the key drivers for this rating action.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

Palomar Community College District's financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These statements allow for the presentation of financial activity and results of operations which focus on the District as a whole. The entity-wide financial statements present the overall status of operations whereby all of the District's overall financial activities are consolidated into one total rather than the traditional presentation by individual fund groups. This annual report consists of three parts: MD&A (this section), the basic financial statements, and supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The financial position is presented as of June 30, 2021 and 2020 and consists of three primary statements:

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

THE DISTRICT AS A WHOLE

STATEMENT OF NET POSITION

The focus of the Statement of Net Position is to illustrate the financial position of the District at a point in time. The Statement of Net Position combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term liabilities. This statement presents all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District as a whole. It is prepared using the full accrual basis of accounting, which is similar to the accounting method used by most private-sector organizations. The Statement of Net Position provides a snapshot of the District's overall financial condition as of June 30, 2021 and 2020.

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

GASB Concepts Statement No. 4 – *Elements of Financial Statements* defines deferred outflows of resources, deferred inflows of resources, and net position. Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation. Deferred outflows and deferred inflows of resources are recognized through the consumption or acquisition of resources by the District that is applicable to a future reporting period.

Changes in Assets

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

Current cash and investments consist mainly of cash invested primarily in the San Diego County investment pool. As provided for by California Education Code Section 41001, a significant portion of the District's cash balances, totaling $252,555,752, is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Interest earned on such pooled cash balances is allocated proportionately to all funds in the pool. The District's cash and investments decreased from $339,374,667 to $255,411,518 primarily due to increases in operating expenses, ongoing capital improvements and debt service payments, purchases, acquisitions, and state deferrals.

Accounts receivables primarily represent funding owed to the District by students, by federal and State sources for grant and entitlement programs, and by local sources for all other purposes. The District provides for an allowance for uncollectible accounts as an estimation of amounts it may not receive. The total owed to the District by all sources is $21,516,376. Other current assets include prepayments to vendors for goods or services that will not be received until the following fiscal year.

Capital assets represent the District's investment in land, site improvements, buildings, building improvements, construction in progress, and equipment, less the cost of accumulated depreciation. Capital assets are recorded at cost on the date of acquisition or fair value at the date of donation. The District's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 50 years for buildings, 30 years for building improvements or additions, 10 years for land improvements, 8 years for equipment, 7 years for library books, and 3 years for technology equipment. Land and construction in progress are considered non-depreciable capital assets; therefore no depreciation is calculated. As of June 30, 2021, the District recorded $621,437,692 invested in capital assets, $109,792,393 in accumulated depreciation, netting $511,645,299 recorded in net capital assets. Capital assets decreased by a net value of $1,128,960 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 $18,400,053 from last year reflects increases in statutory rates for pension contributions, the contributions subsequent to the measurement date associated with the OPEB plan of the District and the amortization of the general obligation bond refunding.

Changes in Liabilities

The District's total liabilities consist of current liabilities and long-term liabilities. Current liabilities represent amounts owed to vendors for services and goods received during fiscal year 2020-2021 for which payment would not be made until fiscal year 2021-2022. Also included are accrued payroll and outstanding liabilities and related interest payable. Unearned revenue includes deferred enrollment fees for the 2021-2022 academic year and advances from federal, state, and local program funds received but not yet earned as of June 30, 2021. Most grant funds are earned when expended (up to the grant amount awarded). The District's current liabilities at June 30, 2021, were $1,510,707 more than at June 30, 2020.

The District's long-term liabilities are debt with maturities of more than one year, consisting of $758,100,998 in voter-approved General Obligation Bonds and Lease Revenue Bonds, $165,831,011 in aggregate net pension liability resulting from GASB 68 - *Accounting and Financial Reporting for Pensions*; $83,359,734 in net OPEB liability resulting from GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and $5,124,541 in other liabilities such as compensated absences and load banking. At year end, the District has an aggregate net pension liability of $165,831,011 versus $150,845,469 last year, an increase of $14,985,542 The General Obligation Bonds and Lease Revenue Bonds decreased by $81,625,414. 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 increased by $1,032,402. At June 30, 2021, the District recorded $1,012,416,284 in long term liabilities, of which $12,555,000 is due within one year.

Changes in Deferred Inflows of Resources

Deferred inflows of resources represent OPEB related costs and pension costs, resulting from net change in proportionate share of net pension liability, the difference between projected and actual earnings on the pension plan investments, differences between expected and actual experience in the measurement of the total pension liability and changes of assumptions related to pension liability. This amount is deferred and amortized over five to seven years. Deferred inflows decreased by $1,436,676.

Changes in Net Position

Net position is an accounting concept defined as total assets and deferred outflows less total liabilities and deferred inflows. Changes in net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The overall change in net position is an indicator of whether the financial condition has improved or worsened during the year. Overall the District's expenditures exceeded revenues resulting in a decrease in net position of $2,594,738, decreasing from $(201,222,439) to $(203,817,177). The net position is categorized between net investment in capital assets, restricted net assets, and unrestricted net assets.

The Net Investment in Capital Assets represents the net amount invested in property, plant, and equipment owned by the District (capital assets less net of accumulated depreciation and outstanding capital-related debt) and deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets, or related liabilities. The Net Investment in Capital Assets of $17,353,806 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 $55,114,471 consists of restricted assets less liabilities and deferred inflows of resources related to those assets. When an expense is incurred that can be paid using either restricted or unrestricted resources, the District first applies the expense toward restricted resources, and then towards unrestricted resources.

Unrestricted Net Position is defined by GASB Statements No. 34 and No. 35 as those assets that do not have external legal restrictions against them, including any amounts designated by the Governing Board. The Unrestricted Net Position decreased by $(33,133,096), decreasing from $(243,152,358) to $(276,285,454). 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 2021 AND 2020

A summarized comparison of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2021 and 2020, is presented below:

THE DISTRICT AS A WHOLE

Net Position

	2021	2020, as restated	Change
Assets			
Cash and investments	$ 255,411,518	$ 339,374,667	$ (83,963,149)
Receivables, net	21,516,376	22,342,851	(826,475)
Other current assets	483,970	749,806	(265,836)
Capital assets, net	511,645,299	512,774,259	(1,128,960)
Total assets	789,057,163	875,241,583	(86,184,420)
Deferred Outflows of Resources	66,045,678	47,645,625	18,400,053
Liabilities			
Accounts payable and accrued liabilities	32,990,944	31,480,237	1,510,707
Current portion of long-term liabilities	12,555,000	7,800,000	4,755,000
Noncurrent portion of long-term liabilities	999,861,284	1,069,879,944	(70,018,660)
Total liabilities	1,045,407,228	1,109,160,181	(63,752,953)
Deferred Inflows of Resources	13,512,790	14,949,466	(1,436,676)
Net Position			
Net investment in capital assets	17,353,806	11,061,532	6,292,274
Restricted	55,114,471	30,868,387	24,246,084
Unrestricted (deficit)	(276,285,454)	(243,152,358)	(33,133,096)
Total net position	$ (203,817,177)	$ (201,222,439)	$ (2,594,738)

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, 2021 and 2020, 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 $235,872,067 and expenditures totaled $238,466,805 resulting in an overall decrease in net position by $2,594,738.

Revenues

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating revenues are generated by tuition and fees, such as enrollment fees, non-resident tuition, health fees, parking fees, other-related student fees, grants and contracts, and various auxiliary sales and charges. Tuition and fee revenue is reported net of discounts for tuition paid by various federal, State, and local grants, including those associated with the Title IV Higher Education Administration Program and State-mandated exemptions against tuition. Regular enrollment fees are set by the State for all community colleges and were $46 per unit. Tuition and fee revenue (net) decreased by $1,422,440 in 2021 primarily due to enrollment decline, increase in emergency grants awarded to students, and the effect of campus locations being fully or partially closed due to the pandemic. Auxiliary sales and charges are primarily bookstore and vending commissions.

State general apportionment, property taxes, grants and contracts, sales taxes and other revenues, and investment income, while budgeted for operations, are prescribed by GASB as nonoperating revenues. Thus, operating expenses exceed operating revenues, resulting in an operating loss of $139,579,758.

State apportionments decreased in 2020-2021 by $4,709,134 primarily due to decline in reported Full-time Equivalent Students (FTES) and increase in local property taxes. Reported FTES declined from 15,224.31 in 2019-2020 to 14,923 (Second Principal P2) in 2020-2021. Local property taxes increased by $5,019,056 as the taxable assessed value of properties within the District boundaries increased by 3.6% from the prior year (California Municipal Statistics, Inc.). The amount received by the District for property taxes is deducted from the revenue limit calculated by the State for the District.

Expenses

Operating expenditures decreased by $26,345,828 from the prior year. The vast majority of operating expenses are for the salaries and benefits of academic, classified, and administrative personnel, comprising of $147,169,086 or 76% of the total operating expenses from a District-wide full accrual perspective. This amount includes the activity from all District funds. The $3,832,756 decrease in salaries and benefits was primarily due to employee retirements and separations and the full year effect of limited hiring of new and replacement positions. Supplies, maintenance, and equipment expenses are $21,835,614 less than the prior year due to decrease in operating expenses, closure of facilities, and transition to remote operations. Student financial aid decreased by $587,465. The $89,993 decrease in depreciation is due to the continued completion, capitalization, and subsequent depreciation of projects primarily resulting from the District's General Obligation Bond program.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

A summarized comparison of the District's revenues, expenses, and changes in net position for the years ended June 30, 2021 and 2020, is presented below:

Operating Results for Fiscal Years 2021 and 2020

	2021	2020, as restated	Change
Operating Revenues			
Tuition and fees, net	$ 12,699,538	$ 14,121,978	$ (1,422,440)
Grants and contracts, noncapital	41,696,555	39,101,779	2,594,776
Auxiliary sales and charges	-	185,869	(185,869)
Total operating revenues	54,396,093	53,409,626	986,467
Operating Expenses			
Salaries and benefits	147,169,086	151,001,842	(3,832,756)
Supplies, services, equipment, and maintenance	6,800,653	28,636,267	(21,835,614)
Student financial aid	27,917,441	28,504,906	(587,465)
Depreciation	12,088,671	12,178,664	(89,993)
Total operating expenses	193,975,851	220,321,679	(26,345,828)
Operating loss	(139,579,758)	(166,912,053)	27,332,295
Nonoperating Revenues			
State apportionments	20,852,470	25,561,604	(4,709,134)
Property taxes	121,161,455	116,142,399	5,019,056
Student financial aid grants	22,887,523	23,177,445	(289,922)
State revenues	5,236,220	4,952,088	284,132
Net interest expense	(40,056,740)	(30,742,022)	(9,314,718)
Other nonoperating revenues	6,904,092	3,340,971	3,563,121
Total nonoperating revenue	136,985,020	142,432,485	(5,447,465)
Other Revenues			
State and local capital income	-	4,468,939	(4,468,939)
Change in net position	$ (2,594,738)	$ (20,010,629)	$ 17,415,891

Expenses by Functional Classification – All Funds

The following represents the fiscal year 2021 operating expenses by function:

	Salaries and Employee Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	$ 62,743,447	$ 923,463	$ -	$ -	$ 63,666,910
Academic support	28,866,203	1,350,543	-	-	30,216,746
Student services	17,394,961	784,094	-	-	18,179,055
Plant operations and maintenance	8,332,296	1,666,026	-	-	9,998,322
Instructional support services	25,150,339	1,758,262	-	-	26,908,601
Community services and economic development	264,945	179	-	-	265,124
Ancillary services and auxiliary operations	4,416,895	102,064	-	-	4,518,959
Student aid	-	-	27,917,441	-	27,917,441
Physical property and related acquisitions	-	216,022	-	-	216,022
Unallocated depreciation	-	-	-	12,088,671	12,088,671
Total	$ 147,169,086	$ 6,800,653	$ 27,917,441	$ 12,088,671	$ 193,975,851

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, 2021 and 2020, is presented below:

	2021	2020, as restated	Change
Net Cash Flows from			
Operating activities	$ (122,002,158)	$ (158,349,642)	$ 36,347,484
Noncapital financing activities	155,996,067	138,193,812	17,802,255
Capital financing activities	(120,561,355)	(16,676,377)	(103,884,978)
Investing activities	105,007,820	6,904,444	98,103,376
Net Increase (Decrease) in Cash	18,440,374	(29,927,763)	48,368,137
Cash, Beginning of Year	236,971,144	266,898,907	(29,927,763)
Cash, End of Year	$ 255,411,518	$ 236,971,144	$ 18,440,374

CAPITAL ASSET AND LONG-TERM LIABILITIES ADMINISTRATION

Capital Assets

As of June 30, 2021, the District had in place $621,437,692 invested in net capital assets, net of accumulated depreciation of $109,792,393. The District continues to implement its long-range plan to modernize and renew its instructional and support services facilities to fulfill its mission. Construction in progress represents the ongoing expenditures of the long-term capital improvement projects related to the District's Master Plan 2022. As individual projects are completed and placed into service, they are listed as capital assets and depreciated accordingly.

As of June 30, 2021, the District had commitments with respect to the following unfinished capital projects:

Library and Learning Resource Center

Fallbrook Education Center

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Land, construction in progress and works of art	$ 85,860,389	$ 6,070,162	$ (17,515,507)	$ 74,415,044
Buildings and improvements	501,343,135	21,403,105	-	522,746,240
Furniture and equpment	23,298,804	1,001,951	(24,347)	24,276,408
Subtotal	610,502,328	28,475,218	(17,539,854)	621,437,692
Accumulated depreciation	(97,728,069)	(12,088,671)	24,347	(109,792,393)
Total	$ 512,774,259	$ 16,386,547	$ (17,515,507)	$ 511,645,299

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

As of June 30, 2021, the District had $1,012,416,284 in long-term liabilities primarily made up of general obligation and lease revenue bonds, aggregate net pension liability and 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:

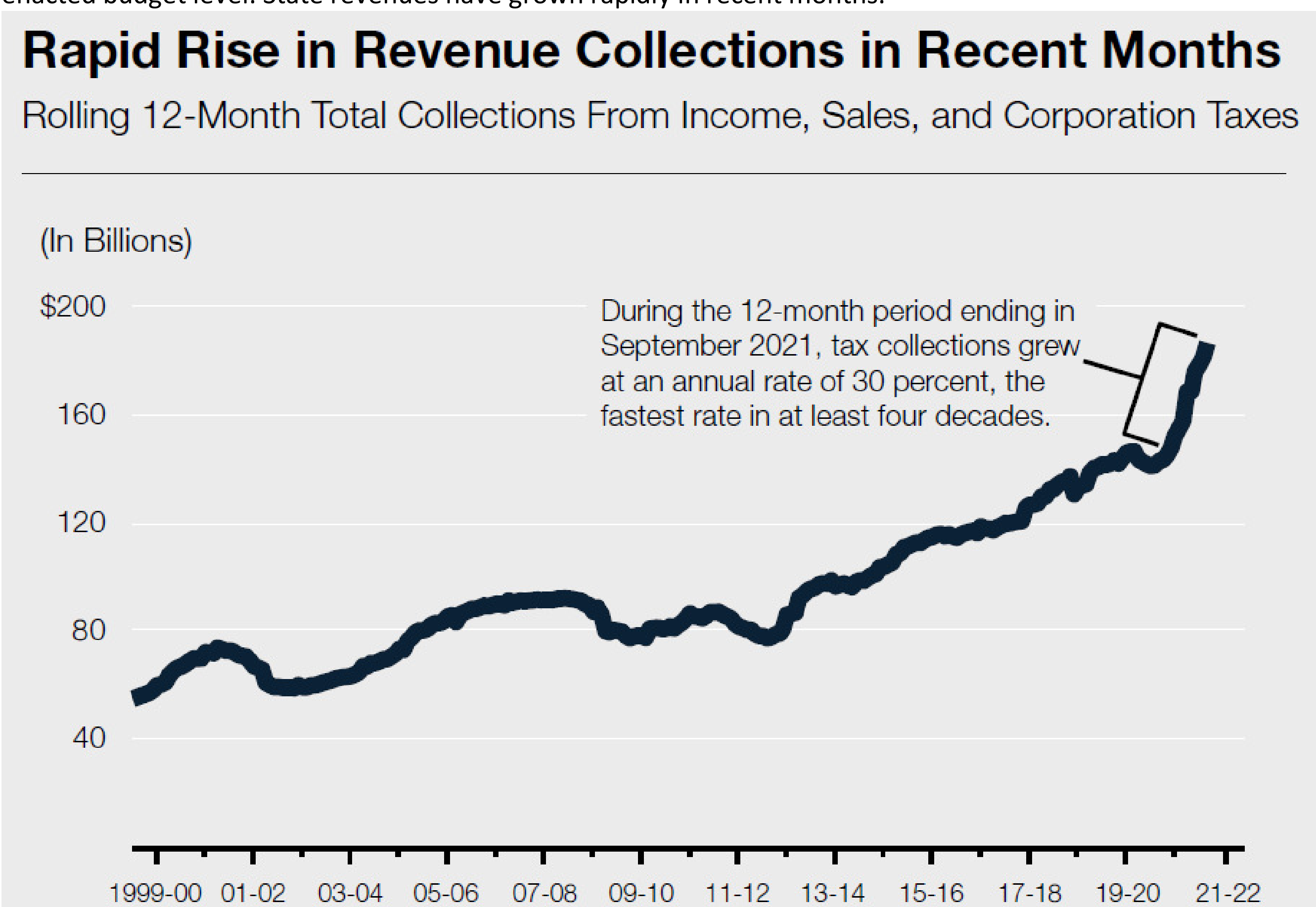
	Balance Beginning of Year	Additions	Deletions	Balance End of Year
General obligation bonds	$ 838,051,412	$ 211,376,854	$ (292,887,268)	$ 756,540,998
Lease revenue bonds	1,675,000	-	(115,000)	1,560,000
Aggregate net pension liability	150,845,469	14,985,542	-	165,831,011
Net OPEB liability	82,327,332	1,032,402	-	83,359,734
Other liabilities	4,780,731	343,810	-	5,124,541
Total long-term liabilities	$ 1,077,679,944	$ 227,738,608	$ (293,002,268)	$ 1,012,416,284
Amount due within one year				$ 12,555,000

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 November 17, 2021, with revenue projections significantly above June 2021 estimates, the estimated "minimum guarantee" for school and community college funding in 2022-23 is $11.6 billion above (12.4%) the 2021-22 enacted budget level. State revenues have grown rapidly in recent months.



Source: Legislative Analyst Office, November 2021, *The 2022-23 Budget: Fiscal Outlook for Schools and Community Colleges.*

The Governor's January Budget Proposal for the fiscal year 2022-23 is focused on restoring fiscal resilience and developing a robust COVID-19 response, and laying a budget foundation against future risks.

The minimum funding level for schools and community colleges required by Proposition 98 is projected to grow to $105 billion in 2022-23. While the temporary protections under the COVID-19 Emergency Conditions Allowance expire at the end of 2021-22, the 2021 Budget Act extended the Student Centered Funding Formula's (SCFF) existing minimum revenue (hold harmless) provision 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 proposes to extend the revenue protections in a modified form. Under the proposal, a district's 2024-25 funding would represent its new "floor", below which it could not drop. Funding rates would continue to increase to reflect the statutory COLA if provided in the budget act language, but this revised hold h armless provision would no longer automatically include adjustments to reflect cumulative COLAs over time.

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 2022-23, the contribution rates currently are projected to grow more from 22.91% to 26.10% for CalPERS and from 16.92% to 19.10% for CalSTRS.

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

ACKNOWLEDGMENTS

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

OFFICIALS ISSUING THE REPORT

Ambur Borth, Assistant Superintendent, Finance and Administrative Services

Assets	
Cash and cash equivalents	$ 2,855,766
Investments	252,555,752
Accounts receivable	16,665,069
Student receivables, net	4,851,307
Prepaid expenses	483,970
Capital assets	
Nondepreciable capital assets	74,415,044
Depreciable capital assets, net of depreciation	437,230,255
Total capital assets	511,645,299
Total assets	789,057,163
Deferred Outflows of Resources	
Deferred outflows of resources related to debt refunding	23,373,686
Deferred outflows of resources related to OPEB	4,005,143
Deferred outflows of resources related to pensions	38,666,849
Total deferred outflows of resources	66,045,678
Liabilities	
Accounts payable	10,885,309
Accrued interest payable	6,706,893
Unearned revenue	15,398,742
Long-term liabilities	
Long-term liabilities other than OPEB and pensions, due within one year	12,555,000
Long-term liabilities other than OPEB and pensions, due in more than one year	750,670,539
Net other postemployment benefits (OPEB) liability	83,359,734
Aggregate net pension liability	165,831,011
Total liabilities	1,045,407,228
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	7,743,630
Deferred inflows of resources related to pensions	5,769,160
Total deferred inflows of resources	13,512,790
Net Position	
Net investment in capital assets	17,353,806
Restricted for	
Debt service	16,661,587
Capital projects	14,640,313
Educational programs	9,070,617
Other activities	14,741,954
Unrestricted (deficit)	(276,285,454)
Total Net Position	$ (203,817,177)

Operating Revenues	
Tuition and fees	$ 21,503,317
Less: Scholarship discounts and allowances	(8,803,779)
Net tuition and fees	12,699,538
Grants and contracts, noncapital	
Federal	12,442,127
State	27,898,256
Local	1,356,172
Total grants and contracts, noncapital	41,696,555
Total operating revenues	54,396,093
Operating Expenses	
Salaries	88,773,725
Employee benefits	58,395,361
Supplies, materials, and other operating expenses and services	6,800,653
Student financial aid	27,917,441
Depreciation	12,088,671
Total operating expenses	193,975,851
Operating Loss	(139,579,758)
Nonoperating Revenues (Expenses)	
State apportionments, noncapital	20,852,470
Local property taxes, levied for general purposes	87,221,691
Taxes levied for other specific purposes	33,939,764
Federal and State financial aid grants	22,887,523
State taxes and other revenues	5,236,220
Investment income	2,049,932
Interest expense on capital related debt	(44,490,954)
Investment income on capital asset-related debt, net	2,384,282
Other nonoperating revenue	6,904,092
Total nonoperating revenues (expenses)	136,985,020
Change In Net Position	(2,594,738)
Net Position, Beginning of Year, as Restated	(201,222,439)
Net Position, End of Year	$ (203,817,177)

Cash Flows from Operating Activities	
Tuition and fees	$ 11,949,712
Federal, state, and local grants and contracts, noncapital	35,702,032
Payments to or on behalf of employees	(133,408,837)
Payments to vendors for supplies and services	(8,327,624)
Payments to students for scholarships and grants	(27,917,441)
Net cash flows from operating activities	(122,002,158)
Cash Flows from Noncapital Financing Activities	
State apportionments	28,445,483
Federal and state financial aid grants	28,501,167
Property taxes - nondebt related	87,221,691
State taxes and other apportionments	5,236,220
Other nonoperating	6,591,506
Net cash flows from noncapital financing activities	155,996,067
Cash Flows from Capital Financing Activities	
Purchase of capital assets	(8,642,523)
Proceeds from capital debt	201,365,000
Property taxes - related to capital debt	33,939,764
Principal paid on capital debt	(272,568,013)
Interest paid on capital debt	(77,039,865)
Interest received on capital asset-related debt	2,384,282
Net cash flows from capital financing activities	(120,561,355)
Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	102,403,523
Interest received from investments	2,604,297
Net cash flows from investing activities	105,007,820
Change In Cash and Cash Equivalents	18,440,374
Cash and Cash Equivalents, Beginning of Year, as Restated	236,971,144
Cash and Cash Equivalents, End of Year	$ 255,411,518

Reconciliation of net operating loss to net cash flows from operating activities	
Operating Loss	$ (139,579,758)
Adjustments to reconcile operating loss to net cash flows from operating activities	
Depreciation expense	12,088,671
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
Accounts receivable	(6,944,905)
Student receivables, net	(63,412)
Prepaid expenses	265,836
Deferred outflows of resources related to OPEB	(3,916,945)
Deferred outflows of resources related to pensions	2,659,201
Accounts payable	(1,699,892)
Unearned revenue	263,968
Compensated absences	273,204
Load banking	70,606
Net OPEB liability	1,032,402
Aggregate net pension liability	14,985,542
Deferred inflows of resources related to OPEB	1,904,491
Deferred inflows of resources related to pensions	(3,341,167)
Total adjustments	17,577,600
Net cash flows from operating activities	$ (122,002,158)
Cash and Cash Equivalents Consist of the Following:	
Cash on hand and in banks	$ 2,855,766
Cash in county treasury	252,555,752
Total cash and cash equivalents	$ 255,411,518
Noncash Transactions	
Recognition of deferred outflows of resources related to debt refunding	$ 18,837,056
Amortization of deferred outflows of resources related to debt refunding	$ 1,694,747
Amortization of debt premiums	$ 20,434,255
Accretion of interest on capital appreciation bonds	$ 10,011,854

	Retiree OPEB Trust
Assets	
Investments	$ 8,886,422
Net Position	
Restricted for postemployment benefits other than pensions	$ 8,886,422

	Retiree OPEB Trust
Additions	
District contributions	$ 5,899,945
Interest and investment income, net of fees	1,503,583
Total additions	7,403,528
Deductions	
Benefit payments	5,899,945
Administrative expenses	10,063
Total deductions	5,910,008
Change in Net Position	1,493,520
Net Position - Beginning of Year, as Restated	7,392,902
Net Position - End of Year	$ 8,886,422

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 Government Accounting Standards Board. 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, certain 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 $2,228,083 for the year ended June 30, 2021.

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, 2021.

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.

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.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Unearned Revenue

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position related to net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on 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 $55,114,471 of restricted net position, and the fiduciary funds financial statements report $8,886,422 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. When known and measurable, these recalculations and corrections are accrued in the current fiscal year.

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 scholarships, discounts, and allowances. Fee waivers approved by the California Community College Board of Governors are included within the scholarships, discounts, and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf.

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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Estimates

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

AS of July 1, 2020 the District adopted GASB No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship. The impact to the District resulted in a reclassification of the District's student body activities from fiduciary to governmental. The effect of the implementation of this standard on beginning fund balance and net position (deficit) is disclosed in Note 13.

New Accounting Pronouncements

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

The requirements for this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

Note 3 - Deposits and Investments

Policies and Practices

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

Investment in County Treasury

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

Authorized Under Debt Agreements

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

Summary of Deposits and Investments

Deposits and investments as of June 30, 2021, consist of the following:

	Primary Government	Fiduciary Funds
Cash on hand and in banks	$ 2,834,622	$ -
Cash in revolving	21,144	-
Investments	252,555,752	8,886,422
Total deposits and investments	$ 255,411,518	$ 8,886,422

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County of San Diego Investment Pool and a Master Trust.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County of San Diego Investment Pool is not required to be rated. However, as of June 30, 2021, the County of San Diego Investment Pool reflected an AAAf/S1 rating by Fitch and Moody's. The District's investment in the Master Trust is not required to be rated, nor has it been rated.

Investment Type	Fair Value	Weighted Average Maturity in Days	Credit Rating
County of San Diego Investment Pool	$ 252,555,752	613	AAAf/S1
Master Trust	8,886,422	No maturity	Not rated
Total	$ 261,442,174		

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, 2021, the District's bank balance of $3,264,217 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, 2021, the District's investment balance of $8,886,422 was exposed to custodial credit risk because it was uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

Note 4 - Fair Value Measurements

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

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

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

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

The District's fair value measurements are as follows at June 30, 2021:

Investment Type	Fair Value	Level 3 Inputs
Master Trust	$ 8,886,422	$ 8,886,422

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, 2021, consisted of the following:

	Primary Government
Federal Government	
Categorical aid	$ 2,354,999
State Government	
Apportionment	1,899,352
Categorical aid	8,966,449
Lottery	1,231,545
Local Sources	
Interest	426,416
Other local sources	1,786,308
Total	$ 16,665,069
Student receivables	$ 7,079,390
Less: allowance for bad debt	(2,228,083)
Student receivables, net	$ 4,851,307

Note 6 - Capital Assets

Capital asset activity for the District for the year ended June 30, 2021, was as follows:

	Balance, Beginning of Year	Additions	Deductions	Balance, End of Year
Capital Assets Not Being Depreciated				
Land	$ 63,134,087	$ -	$ -	$ 63,134,087
Construction in progress	22,647,252	6,068,542	(17,515,507)	11,200,287
Works of art	79,050	1,620	-	80,670
Total capital assets not being depreciated	85,860,389	6,070,162	(17,515,507)	74,415,044
Capital Assets Being Depreciated				
Land improvements	37,446,702	-	-	37,446,702
Buildings and improvements	463,896,433	21,403,105	-	485,299,538
Furniture and equipment	23,298,804	1,001,951	(24,347)	24,276,408
Total capital assets being depreciated	524,641,939	22,405,056	(24,347)	547,022,648
Total capital assets	610,502,328	28,475,218	(17,539,854)	621,437,692
Less Accumulated Depreciation				
Land improvements	(19,951,740)	(1,723,851)	-	(21,675,591)
Buildings and improvements	(57,869,216)	(9,482,006)	-	(67,351,222)
Furniture and equipment	(19,907,113)	(882,814)	24,347	(20,765,580)
Total accumulated depreciation	(97,728,069)	(12,088,671)	24,347	(109,792,393)
Net capital assets	$ 512,774,259	$ 16,386,547	$ (17,515,507)	$ 511,645,299

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, 2021, consisted of the following:

	Balance, Beginning of Year	Additions	Deductions	Balance, End of Year	Due in One Year
General obligation bonds	$ 782,751,589	$ 211,376,854	$ (272,453,013)	$ 721,675,430	$ 12,435,000
Bond premium	55,299,823	-	(20,434,255)	34,865,568	-
Lease revenue bonds	1,675,000	-	(115,000)	1,560,000	120,000
Compensated absences	4,075,277	273,204	-	4,348,481	-
Load banking	705,454	70,606	-	776,060	-
Total	$ 844,507,143	$ 211,720,664	$ (293,002,268)	$ 763,225,539	$ 12,555,000

Description of Long-Term Liabilities

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. The lease revenue bonds will be paid by the other debt service fund. The compensated absences and load banking liability will be paid by the fund for which the employee worked.

General Obligation Bonds

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

General Obligation Bonds, Election 2006, Series B

On October 28, 2010, the District issued General Obligation Bonds, Election 2006, Series B in the aggregate principal amount of $91,498,901. The Bonds consisted of $1,500,000 in Current Interest Serial Bonds, $27,883,490 in Capital Appreciation Serial Bonds, and $62,115,411 in Convertible Capital Appreciation Term Bonds. Bonds were issued with a final maturity date of August 1, 2045, and interest rates ranging from 2.36% to 6.72%, depending on the maturity of the related bonds. Interest is payable semiannually on August 1 and February 1 of each year. During the 2016-2017 fiscal year, the District issued 2017 General Obligation Refunding (Crossover) Bonds. These bonds were issued to refund a portion of the remaining outstanding obligation of the District's General Obligation Bonds, Election 2006, Series B. Monies were placed in an escrow account in the District's name, 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, 2021, was $14,270,430.

General Obligation Bonds, Election 2006, Series B-1

On October 28, 2010, the District issued General Obligation Bonds, Election 2006, Series B-1 (federally taxable) in the aggregate principal amount of $83,500,000. Bonds were issued with a final maturity date of August 1, 2045, with a current interest 7.94%. Interest is payable semiannually on August 1 and February 1 of each year. During the 2016-2017 fiscal year, the District issued 2017 General Obligation Refunding (Crossover) Bonds. These bonds were issued to refund the remaining outstanding obligation of the District's General Obligation Bonds, Election 2006, Series B-1. Monies were placed in an escrow account in the District's name to pay the remaining balance of the bonds on the crossover date, August 1, 2020. The outstanding principal balance of these bonds at June 30, 2021, was $0.

General Obligation Bonds, Election 2006, Series C

On March 17, 2015, the District issued General Obligation Bonds, Election 2006, Series C in the aggregate principal amount of $220,000,000. Bonds were issued with a final maturity date of August 1, 2040, and interest rates ranging from 2.00% to 5.00%, depending on the maturity of the related bonds. Interest is payable semiannually on August 1 and February 1 of each year. The outstanding principal balance of these bonds at June 30, 2021, was $85,740,000.

General Obligation Bonds, Election 2006, Series D

On March 22, 2017, the District issued General Obligation Bonds, Election 2006, Series A in the aggregate principal amount of $139,000,000. Bonds were issued with a final maturity date of August 1, 2046, and interest rates ranging from 3.25% to 5.00%, depending on the maturity of the related bonds. Interest is payable semiannually on May 1 and November 1 of each year. The outstanding principal balance of these bonds at June 30, 2021, was $134,035,000.

2015 General Obligation Refunding Bonds

On January 13, 2015, the District issued 2015 General Obligation Refunding Bonds in the aggregate principal amount of $115,675,000. Bonds were issued with a final maturity date of May 1, 2028, and interest rates ranging from 2.00% to 5.00%, depending on the maturity of the related bonds. The Bonds were issued to advance refund and defease a portion of the District's obligation related to the General obligation Bonds, 2006 Series A. Interest is payable semiannually on May 1 and November 1 of each year. The outstanding principal balance of these bonds at June 30, 2021, was $51,495,000.

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, 2021, 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 refunding resulted in a cash flow savings of $21,221,566 and an economic gain of $15,502,857 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted 2.71%. The principal balance outstanding at June 30, 2021 was $201,365,000.

Debt Maturity

General Obligation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding Beginning of Year	Issued	Accreted Interest	Redeemed	Bonds Outstanding End of Year
10/28/2010	8/1/2045	2.36-6.72%	$ 91,498,901	$157,011,589	$ -	$ 10,011,854	$ (19,753,013)	$147,270,430
10/28/2010	8/1/2045	7.94%	83,500,000	83,500,000	-	-	(83,500,000)	-
3/17/2015	8/1/2040	2.00-5.00%	220,000,000	205,225,000	-	-	(119,485,000)	85,740,000
3/22/2017	8/1/2046	3.25-5.00%	139,000,000	134,035,000	-	-	-	134,035,000
1/13/2015	5/1/2028	2.00-5.00%	115,675,000	101,210,000	-	-	(49,715,000)	51,495,000
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	-	201,365,000	-	-	201,365,000
				$782,751,589	$201,365,000	$ 10,011,854	$ (272,453,013)	$721,675,430

The Bonds mature through 2047 as follows:

Fiscal Year	Principal	Unmatured Accreted Interest	Current Interest to Maturity	Total
2022	$ 12,340,560	$ 94,440	$ 20,868,225	$ 33,303,225
2023	12,946,976	333,024	21,718,151	34,998,151
2024	14,327,286	637,714	20,798,717	35,763,717
2025	15,741,976	1,028,024	20,366,645	37,136,645
2026	17,456,846	1,258,154	19,585,959	38,300,959
2027-2031	79,738,144	4,941,856	121,274,417	205,954,417
2032-2036	102,065,933	2,839,067	132,014,672	236,919,672
2037-2041	147,042,103	26,987,897	101,445,447	275,475,447
2042-2046	243,485,606	25,749,394	48,979,767	318,214,767
2047	76,530,000	-	3,061,200	79,591,200
Total	$ 721,675,430	$ 63,869,570	$ 510,113,200	$ 1,295,658,200

Lease Revenue Bonds 2001 Series

The District issued Lease Revenue Bonds Series 2001 on July 18, 2001, in the amount of $3,095,000 to be used to remodel and expand the Student Center. Interest rates on the bonds range from 5.0% to 5.625% depending on the maturity of the related bonds. The bonds will mature on April 1, 2031. The source of revenue to pay off the debt will come from the Student Center Fee Fund. Future principal and interest payments are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2022	$ 120,000	$ 83,350	$ 203,350
2023	130,000	76,600	206,600
2024	135,000	69,288	204,288
2025	145,000	61,694	206,694
2026	150,000	53,538	203,538
2027-2031	880,000	139,913	1,019,913
Total	$ 1,560,000	$ 484,383	$ 2,044,383

Note 8 - Net Other Postemployment Benefit (OPEB) Liability

For the year ended June 30, 2021, the District reported a net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense of $83,359,734, $4,005,143, $7,743,630 and $(980,052), respectively.

The details of the plan are as follows:

Plan Administration

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

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

Plan Membership

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

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

Retiree Health Benefit OPEB Trust

The Palomar Community College District Retiree Health Benefit OPEB Trust (the Trust) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by the District's Governing Board as directed by the investment alternative choice selected by the District. The District retains the responsibility to oversee the management of the Trust, including the requirement that investments and assets held within the Trust continually adhere to the requirements of the California *Government Code* Section 53600.5 which specifies that the trustee's primary role is to preserve capital, to maintain investment liquidity, and to protect investment yield. As such, the District acts as the fiduciary of the Trust. The financial activity of the Trust has been discretely presented. 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, 2021, the District contributed $5,899,945 to the Plan, which was used for current premiums.

Investment

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the District to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, expect for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2021:

Asset Class	Target Allocation
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, 2021, the annual money-weighed rate of return on investments, net of investment expense, was 20.20%. 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 $83,359,734 was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020. The components of the net OPEB liability of the District at June 30, 2021, were as follows:

Total OPEB liability	$ 92,246,156
Plan fiduciary net position	(8,886,422)
Net OPEB liability	$ 83,359,734
Plan fiduciary net position as a percentage of the total OPEB liability	9.63%

Actuarial Assumptions

The total OPEB liability as of June 30, 2021 was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2020 and rolling forward the total OPEB liability to June 30, 2021. The following assumptions were applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	6.00 percent
Investment rate of return	6.00 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent

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

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

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of plan experience through June 30, 2021.

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, 2021, (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 6.00%. 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, 2020	$ 89,720,234	$ 7,392,902	$ 82,327,332
Service cost	1,296,186	-	1,296,186
Interest	4,790,414	1,503,583	3,286,831
Contributions - employer	-	5,899,945	(5,899,945)
Changes of assumptions	2,339,267	-	2,339,267
Benefit payments	(5,899,945)	(5,899,945)	-
Administrative expense	-	(10,063)	10,063
Net change in total OPEB liability	2,525,922	1,493,520	1,032,402
Balance, June 30, 2021	$ 92,246,156	$ 8,886,422	$ 83,359,734

Changes of economic assumptions reflect a change in the discount rate from 6.30% to 6.00%, change in salary increases from 3.75% to 2.75% and a change in the inflation rate from 2.75% to 2.50% 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 rates:

Discount Rate	Net OPEB Liability
1% decrease (5.00%)	$ 91,360,350
Current discount rate (6.00%)	83,359,734
1% increase (7.00%)	76,196,997

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the District calculated using the current healthcare costs trend rate, 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 Rates	Net OPEB Liability
1% decrease (3.00%)	$ 74,725,680
Current healthcare cost trend rate (4.00%)	83,359,734
1% increase (5.00%)	93,700,512

Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2021, 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	$ 175,316	$ 1,672,311
Changes of assumptions	3,753,164	5,231,456
Net difference between projected and actual earnings on OPEB plan investments	76,663	839,863
Total	$ 4,005,143	$ 7,743,630

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
2022	$ (186,749)
2023	(186,749)
2024	(182,077)
2025	(207,625)
Total	$ (763,200)

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 6.5 years and will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	$ (524,585)
2023	(524,585)
2024	(524,584)
2025	(1,174,285)
2026	(407,187)
Thereafter	179,939
Total	$ (2,975,287)

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) for excess property limits of $250,000,000 per occurrence, with no aggregate and a $5,000 member retained limit. Then, their excess liability has the first $1,000,000 worth of coverage through the Statewide Association of Community Colleges (SWACC) and $25,000,000 excess coverage of $1,000,000 is in SAFER with a $50,000 Member Retained Limit.

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2021, 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 2020-2021, the District participated in the Protected Insurance Programs for Schools (PIPS) JPA, an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated, and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

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

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, 2021, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Aggregate Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 85,507,972	$ 23,644,916	$ 4,660,014	$ 11,301,492
CalPERS	80,323,039	15,021,933	1,109,146	17,691,367
Total	$ 165,831,011	$ 38,666,849	$ 5,769,160	$ 28,992,859

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, 2019, 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, 2021, are summarized as follows:

	STRP	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.15%	16.15%
Required State contribution rate	10.328%	10.328%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and 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, 2021, are presented above, and the District's total contributions were $7,473,888.

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

At June 30, 2021, 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	$ 85,507,972
State's proportionate share of net pension liability associated with the District	44,079,370
Total	$ 129,587,342

The net pension liability was measured as of June 30, 2020. 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, 2020, and June 30, 2019, was 0.0882% and 0.0837%, respectively, resulting in a net increase in the proportionate share of 0.0045%.

For the year ended June 30, 2021, the District recognized pension expense of $11,301,492. In addition, the District recognized pension expense and revenue of $6,175,087 for support provided by the State. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 7,473,888	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	5,650,729	2,248,543
Differences between projected and actual earnings on pension plan investments	2,031,178	-
Differences between expected and actual experience in the measurement of the total pension liability	150,882	2,411,471
Changes of assumptions	8,338,239	-
Total	$ 23,644,916	$ 4,660,014

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
2022	$ (1,239,412)
2023	692,060
2024	1,380,737
2025	1,197,793
Total	$ 2,031,178

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
2022	$ 2,004,742
2023	2,107,489
2024	3,383,524
2025	755,953
2026	660,378
Thereafter	567,750
Total	$ 9,479,836

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, 2019, and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
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 (Pension Consulting Alliance-PCA) 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 future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2020, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	42.0%	4.8%
Private equity	13.0%	6.3%
Real estate	15.0%	3.6%
Inflation sensitive	6.0%	3.3%
Fixed income	12.0%	1.3%
Risk mitigating strategies	10.0%	1.8%
Cash/liquidity	2.0%	-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%)	$ 129,190,635
Current discount rate (7.10%)	85,507,972
1% increase (8.10%)	49,441,783

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, 2019, 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, 2021, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	20.70%	20.70%

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, 2021, are presented above, and the total District contributions were $7,215,395.

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

As of June 30, 2021, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $80,323,039. The net pension liability was measured as of June 30, 2020. 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, 2020 and June 30, 2019, was 0.2618% and 0.2584%, respectively, resulting in a net increase in the proportionate share of 0.0034%.

For the year ended June 30, 2021, the District recognized pension expense of $17,691,367. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 7,215,395	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	1,856,142	1,109,146
Differences between projected and actual earnings on pension plan investments	1,672,071	-
Differences between expected and actual experience in the measurement of the total pension liability	3,983,777	-
Changes of assumptions	294,548	-
Total	$ 15,021,933	$ 1,109,146

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	$ (625,723)
2023	558,123
2024	970,110
2025	769,561
Total	$ 1,672,071

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	$ 3,444,316
2023	1,499,908
2024	87,987
2025	(6,890)
Total	$ 5,025,321

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, 2019, and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

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

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 115,479,016
Current discount rate (7.15%)	80,323,039
1% increase (8.15%)	51,145,342

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2021, which amounted to $4,988,477 (10.328%) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2021. 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 is responding to the GASB Statement No. 45 accounting standards, which require districts to place funds in an irrevocable trust or acknowledge, in their annual financial statements, their unfunded liability.

Financial information for CCLC is not readily available.

Separate financial statements for each JPA may be obtained from the respective entity.

Note 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, 2021.

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, 2021.

Operating Leases

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

Year Ending June 30,	Lease Payment
2022	$ 202,861
2023	197,188
2024	3,000
Total	$ 403,049

Current year expenditures for operating leases is approximately $1,387,357.

Construction Commitments

As of June 30, 2021, the District had approximately $4.9 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.

Capital Project	Remaining Construction Commitment	Expected Date of Completion
PC Fallbrook Education Center	$ 114,065	June 2022
PC Rancho Bernardo Education Center	31,816	June 2022
Library and Learning Resource Center	2,199,155	June 2022
Athletics Complex	680,876	June 2023
Maintenance and Operations Bldg	4,375	June 2022
PC Fallbrook Education Center	1,778,924	June 2025
Athletics Complex	47,196	June 2024
Borrego Springs	4,686	June 2022
Total	$ 4,861,093	

Note 13 - Restatement of Prior Year Net Position

The District adopted GASB Statement No. 84, *Fiduciary Activities*, in the current year. As a result, the effect on the current fiscal year is as follows:

Primary Government	
Net Position - Beginning	$ (202,042,084)
Inclusion of assets and liabilities of funds previously identified as fiduciary in nature from the adoption of GASB Statement No. 84	819,645
Net Position - Beginning, as Restated	$ (201,222,439)

Fiduciary Funds	
Net Position - Beginning	$ 8,212,547
Exclusion of assets and liabilities of funds previously identified as fiduciary in nature from the adoption of GASB Statement No. 84	(819,645)
Net Position - Beginning, as Restated	$ 7,392,902

Certain reclassifications of amounts previously reported have been made to the Management's Discussion and Analysis and the Statement of Cash Flows to maintain consistency between periods presented.

Note 14 - Subsequent Events

On September 21, 2021, the District issued the $122,140,000 2021 General Obligation Refunding Bonds of current interest term bonds. Proceeds from the sale of the bonds were used to advance refund certain portions of the District's outstanding General Obligation Bonds, Election of 2006, Series C and 2015 General Obligation Refunding Bonds, and to pay the costs of issuing the bonds. The bonds mature beginning on August 1, 2022 through August 1, 2040, with interest rates from 0.166 to 2.723%.

Required Supplementary Information
June 30, 2021

Palomar Community College District

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	2021	2020	2019	2018
Total OPEB Liability				
Service cost	$ 1,296,186	$ 1,451,003	$ 1,408,741	$ 1,934,593
Interest	4,790,414	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	2,339,267	(7,556,550)	3,859,317	-
Benefit payments	(5,899,945)	(5,468,447)	(5,893,134)	(5,588,742)
Net change in total OPEB liability	2,525,922	(15,851,223)	4,404,713	2,286,674
Total OPEB Liability - Beginning	89,720,234	105,571,457	101,166,744	98,880,070
Total OPEB Liability - Ending (a)	$ 92,246,156	$ 89,720,234	$ 105,571,457	$ 101,166,744
Plan Fiduciary Net Position				
Contributions - employer	$ 5,899,945	$ 5,468,447	$ 7,893,134	$ 5,588,742
Expected investment income	1,503,583	318,246	301,319	690,766
Benefit payments	(5,899,945)	(5,468,447)	(5,893,134)	(5,588,742)
Administrative expense	(10,063)	(14,617)	-	(500)
Net change in plan fiduciary net position	1,493,520	303,629	2,301,319	690,266
Plan Fiduciary Net Position - Beginning	7,392,902	7,089,273	4,787,954	4,097,688
Plan Fiduciary Net Position - Ending (b)	$ 8,886,422	$ 7,392,902	$ 7,089,273	$ 4,787,954
Net OPEB Liability - Ending (a) - (b)	$ 83,359,734	$ 82,327,332	$ 98,482,184	$ 96,378,790
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	9.63%	8.24%	6.72%	4.73%
Covered Employee Payroll	$ 81,134,925	$ 88,470,639	$ 88,241,386	$ 79,075,506
Net OPEB Liability as a Percentage of Covered Employee Payroll	102.74%	93.06%	111.61%	121.88%
Measurement Date	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.

	2021	2020	2019	2018
Annual money-weighted rate of return, net of investment expense	20.20%	4.28%	6.30%	9.20%

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

	2021	2020	2019	2018
CalSTRS				
Proportion of the net pension liability	0.0882%	0.0837%	0.0824%	0.0814%
Proportionate share of the net pension liability	$ 85,507,972	$ 75,550,191	$ 75,692,563	$ 75,282,780
State's proportionate share of the net pension liability associated with the District	44,079,370	41,217,673	43,337,533	44,536,657
Total	$ 129,587,342	$ 116,767,864	$ 119,030,096	$ 119,819,437
Covered payroll	$ 50,705,637	$ 52,423,520	$ 46,626,140	$ 45,243,148
Proportionate share of the net pension liability as a percentage of its covered payroll	168.64%	144.12%	162.34%	166.40%
Plan fiduciary net position as a percentage of the total pension liability	72%	73%	71%	69%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
CalPERS				
Proportion of the net pension liability	0.2618%	0.2584%	0.2458%	0.2366%
Proportionate share of the net pension liability	$ 80,323,039	$ 75,295,278	$ 65,540,272	$ 56,481,943
Covered payroll	$ 37,765,002	$ 35,817,866	$ 32,449,366	$ 28,819,657
Proportionate share of the net pension liability as a percentage of its covered payroll	212.69%	210.22%	201.98%	195.98%
Plan fiduciary net position as a percentage of the total pension liability	70%	70%	71%	72%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

	2017	2016	2015
CalSTRS			
Proportion of the net pension liability	0.0809%	0.0915%	0.0909%
Proportionate share of the net pension liability	$ 65,416,466	$ 61,617,589	$ 53,119,316
State's proportionate share of the net pension liability associated with the District	37,240,427	32,588,912	32,075,736
Total	$ 102,656,893	$ 94,206,501	$ 85,195,052
Covered payroll	$ 41,606,198	$ 38,026,419	$ 40,938,175
Proportionate share of the net pension liability as a percentage of its covered payroll	157.23%	162.04%	129.75%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS			
Proportion of the net pension liability	0.2221%	0.2588%	0.2756%
Proportionate share of the net pension liability	$ 43,871,669	$ 38,144,438	$ 31,291,747
Covered payroll	$ 26,587,887	$ 31,818,546	$ 28,936,290
Proportionate share of the net pension liability as a percentage of its covered payroll	165.01%	119.88%	108.14%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014

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

	2021	2020	2019	2018
CalSTRS				
Contractually required contribution	$ 7,473,888	$ 8,670,664	$ 8,534,549	$ 6,728,152
Contributions in relation to the contractually required contribution	(7,473,888)	(8,670,664)	(8,534,549)	(6,728,152)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 46,277,944	$ 50,705,637	$ 52,423,520	$ 46,626,140
Contributions as a percentage of covered payroll	16.15%	17.10%	16.28%	14.43%
CalPERS				
Contractually required contribution	$ 7,215,395	$ 7,447,636	$ 6,469,423	$ 5,039,711
Contributions in relation to the contractually required contribution	(7,215,395)	(7,447,636)	(6,469,423)	(5,039,711)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 34,856,981	$ 37,765,002	$ 35,817,866	$ 32,449,366
Contributions as a percentage of covered payroll	20.700%	19.721%	18.062%	15.531%

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

	2017	2016	2015
CalSTRS			
Contractually required contribution	$ 5,691,588	$ 4,464,345	$ 3,376,746
Contributions in relation to the contractually required contribution	(5,691,588)	(4,464,345)	(3,376,746)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 45,243,148	$ 41,606,198	$ 38,026,419
Contributions as a percentage of covered payroll	12.58%	10.73%	8.88%
CalPERS			
Contractually required contribution	$ 4,002,474	$ 3,149,867	$ 3,745,361
Contributions in relation to the contractually required contribution	(4,002,474)	(3,149,867)	(3,745,361)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 28,819,657	$ 26,587,887	$ 31,818,546
Contributions as a percentage of covered payroll	13.888%	11.847%	11.771%

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

Note 1 - Purpose of Schedules

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

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

- *Changes in Benefit Terms* - There were changes in benefit terms effecting the eligible employees and their dependents since the previous valuation.
- *Changes of Assumptions* - Changes of assumptions reflect a change in the discount rate from 6.30% to 6.00%, change in salary increases from 3.75% to 2.75% and a change in the inflation rate from 2.75% to 2.50% since the previous valuation.

Schedule of OPEB Investment Returns

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

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

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

- *Changes in Benefit Terms* - There were no changes in benefit terms since the previous valuations for either CalSTRS or CalPERS.
- *Changes of Assumptions* - There were no changes in economic assumptions since the previous valuations for either CalSTRS or CalPERS.

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, 2021

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, 2021

Member	Office	Term Expires
Brian Olson	President	2022
Mark R. Evilsizer	Vice President	2022
Norma Miyamoto	Secretary	2022
Roberto Rodriguez	Trustee	2024
Christian Garcia	Trustee	2024
Rachel Alazar	Student Trustee	2022

Administration as of June 30, 2021

Jack Kahn, Ph.D.	Interim Superintendent/President
Shayla Sivert	Acting Assistant Superintendent/Vice President, Instruction
Vikash Lakhani	Assistant Superintendent/Vice President, Student Services
David Montoya	Assistant Superintendent/Vice President, Human Resources Services
Ambur Borth	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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA 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		$ 15,330,119	$ -
Federal Pell Grant Program Administrative Allowance	84.063		214	-
Federal Direct Student Loans	84.268		832,833	-
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		482,467	-
Federal Work-Study Program	84.033		390,721	-
Federal Work-Study Program Administrative Allowance	84.033		11,800	-
Subtotal Student Financial Assistance Cluster			17,048,154	-
TRIO Cluster				
Palomar College North County Educational Opportunity Centers	84.066A		284,725	-
Student Support Services - San Marcos	84.042A		371,228	-
Student Support Services - Escondido	84.042A		97,122	-
Upward Bound	84.047A		410,526	-
Upward Bound Rural	84.047A		379,414	-
Talent Search - Escondido	84.044A		275,898	-
Talen Search - Vista	84.044A		280,921	-
Subtotal TRIO Cluster			2,099,834	-
COVID-19: Higher Education Emergency Relief Funds, Institutional Portion	84.425F		4,794,888	-
COVID-19: Higher Education Emergency Relief Funds, Student Aid Portion	84.425E		4,425,750	-
COVID-19: Higher Education Emergency Relief Funds, Minority Serving Institutions	84.425L		532,292	-
Subtotal			9,752,930	-
Passed through California Community Colleges Chancellor's Office				
Career and Technical Education Act (CTEA), Title I, Part C	84.048A	[1]	822,846	-
GEAR-UP Rural/Reservation Collaborative in Pauma, Vista, and Fallbrook	84.334A		957,184	-
Increasing HLI Student Participation, Persistence and Completion in STEM Education	84.031C		646,979	143,752
Total U.S. Department of Education			31,327,927	143,752

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed through to Subrecipients
U.S. Department of the Treasury				
Passed through California Community Colleges Chancellor's Office				
COVID-19: Coronavirus Relief Fund	21.019	[1]	$ 877,342	$ -
Total U.S. Department of Treasury			877,342	-
U.S. Department of Agriculture				
Passed through California Department of Education				
Child and Adult Care Food Program	10.558	1366	32,022	-
Research and Development Cluster				
National Science Foundation				
Passed through Jefferson Community College and Technical College				
Geospatial Technology Center of Excellence Growing the Workforce	47.076	DUE-1700496	9,566	-
Unmanned Aircraft System Operations Technician Education Program (UASTEP)	47.076		75,621	-
Subtotal Research and Development Cluster			85,187	-
U.S. Department of Veterans Affairs				
Veterans Services	64.117		62	-
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]	60,892	-
CCDF Cluster				
Passed through Yosemite Community College District				
Child Development Training Consortium				
Child Care and Development Block Grant	93.658	20-21-4164	41,892	-
Subtotal CCDF Cluster			41,892	-
Total U.S. Department of Health and Human Services			102,784	-
Total Federal Financial Assistance			$ 32,425,324	$ 143,752

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

Program	Program Revenues Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
Access to Print	$ 12,202	$ -	$ 10,849	$ 1,353	$ 1,353
Board Financial Assistance Program (BFAP)	702,171	-	251,272	450,899	450,899
Cal Fresh Outreach	42,696	-	42,696	-	-
Cal Grant	2,007,702	-	9,033	1,998,669	1,998,669
California College Promise Grant	2,256,690	-	991,190	1,265,500	1,265,500
California State Preschool Program	246,408	-	-	246,408	246,408
CalWORKs	362,712	-	66,200	296,512	296,512
Cooperative Agencies Resources for Education (CARE)	138,033	-	-	138,033	138,033
COVID-19 Block Grant - State Portion	1,076,948	-	1,065,725	11,223	11,223
Deaf & Heard of Hearing (DHH)	111,806	-	67,469	44,337	44,337
Disabled Students Programs and Services (DSPS)	1,436,603	-	461,892	974,711	974,711
Disaster Relief Emergency Student Financial Aid	156,825	-	-	156,825	156,825
Early Action Emergency Financial Aid	1,361,203	-	1,361,203	-	-
Extended Opportunities, Programs and Services (EOPS)	1,150,342	-	14,901	1,135,441	1,135,441
Financial Aid Technology	157,059	-	2,846	154,213	154,213
Guided Pathways	779,469	-	560,683	218,786	218,786
Hunger Free Campus Support	95,300	-	26,895	68,405	68,405
Innovation in Higher Education	1,159,923	-	1,110,655	49,268	49,268
Mental Health Services	160,000	118,764	-	278,764	278,764
Mental Health Support	105,851	-	3,270	102,581	102,581
Military Leadership Apprenticeship	200,000	-	181,284	18,716	18,716
Nursing Education (ADN)	210,300	-	7,474	202,826	202,826
Pre-Apprenticeship Grant	-	73,039	-	73,039	73,039
Retention and Enrollment Outreach	355,435	-	346,358	9,077	9,077
Strong Workforce Program	3,816,167	-	2,036,041	1,780,126	1,780,126
Student Engagement Innovation Grant	5,000	-	-	5,000	5,000
Student Equity and Achievement	517,482	5,250,303	-	5,767,785	5,767,785
Student Success Completion Grant	1,734,723	-	174,305	1,560,418	1,560,418
Telecommunications and Technology Infrastructure	676,990	3,450,000	347,646	3,779,344	3,779,344

Program	Program Revenues: Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
Undocumented Resources Liaisons	$ 72,621	$ -	$ 72,621	$ -	$ -
Veteran's Center Remodel	-	47,714	-	47,714	47,714
Veteran's Program	203,497	-	203,497	-	-
Veterans Resource Center	629,444	-	472,378	157,066	157,066
WCCE Transitions Program	72,762	11,364	-	84,126	84,126
Youth Empowerment Strategies for Success (YESS) ILP	7,235	15,265	-	22,500	22,500
Total State Programs	$ 22,021,599	$ 8,966,449	$ 9,888,383	$ 21,099,665	$ 21,099,665

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2020 only)			
1. Noncredit*	35.07	-	35.07
2. Credit	1,436.29	-	1,436.29
B. Summer Intersession (Summer 2021 - Prior to July 1, 2021)			
1. Noncredit*	2.10	-	2.10
2. Credit	96.95	-	96.95
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	49.18	-	49.18
(b) Daily Census Contact Hours	147.34	-	147.34
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	157.72	-	157.72
(b) Credit	516.17	-	516.17
3. Alternative Attendance Accounting Procedure Courses			
(a) Weekly Procedure Courses	10,703.26	-	10,703.26
(b) Daily Procedures Courses	1,594.85	-	1,594.85
(c) Noncredit Independent Study/Distance Education Courses	254.13	-	254.13
D. Total FTES	14,993.06	-	14,993.06
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	142.81	-	142.81
F. Basic Skills Courses and Immigrant Education			
1. Noncredit*	394.41	-	394.41
2. Credit	122.30	-	122.30
CCFS-320 Addendum			
CDCP Noncredit FTES	294.78	-	294.78
Centers FTES			
1. Noncredit*	76.45	-	76.45
2. Credit	832.72	-	832.72

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

	Object/TOP	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 Reported	Audit	Revised	ECS 84362 B Total CEE AC 0100 - 6799 Reported	Audit	Revised
Academic Salaries							
Instructional Salaries							
Contract or Regular	1100	$ 23,685,246	$ -	$ 23,685,246	$ 23,685,246	$ -	$ 23,685,246
Other	1300	15,439,295	-	15,439,295	15,439,295	-	15,439,295
Total Instructional Salaries		39,124,541	-	39,124,541	39,124,541	-	39,124,541
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	9,572,636	-	9,572,636
Other	1400	-	-	-	498,638	-	498,638
Total Noninstructional Salaries		-	-	-	10,071,274	-	10,071,274
Total Academic Salaries		39,124,541	-	39,124,541	49,195,815	-	49,195,815
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	22,872,935	-	22,872,935
Other	2300	-	-	-	324,834	-	324,834
Total Noninstructional Salaries		-	-	-	23,197,769	-	23,197,769
Instructional Aides							
Regular Status	2200	1,665,286	-	1,665,286	1,665,286	-	1,665,286
Other	2400	309,755	-	309,755	309,755	-	309,755
Total Instructional Aides		1,975,041	-	1,975,041	1,975,041	-	1,975,041
Total Classified Salaries		1,975,041	-	1,975,041	25,172,810	-	25,172,810
Employee Benefits	3000	17,488,680	-	17,488,680	34,676,538	-	34,676,538
Supplies and Material	4000	-	-	-	524,159	-	524,159
Other Operating Expenses	5000	-	-	-	8,244,132	-	8,244,132
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		58,588,262	-	58,588,262	117,813,454	-	117,813,454

See Note to Supplementary Information

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP	Reported	Audit	Revised	Reported	Audit	Revised
Exclusions							
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	-	-	-	51,411	-	51,411
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	2,712,221	-	2,712,221
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP	Reported	Audit	Revised	Reported	Audit	Revised
Other Operating Expenses and Services	5000	$ -	$ -	$ -	$ -	$ -	$ -
Capital Outlay	6000						
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	2,763,632	-	2,763,632
Total for ECS 84362, 50 Percent Law		$ 58,588,262	$ -	$ 58,588,262	$ 115,049,822	$ -	$ 115,049,822
Percent of CEE (Instructional Salary Cost/Total CEE)		50.92%		50.92%	100.00%		100.00%
50% of Current Expense of Education					$ 57,524,911		$ 57,524,911

Summarized below is the fund balance reconciliation between the Annual Financial and Budget Report (CCFS-311) and the audited financial statements.

	Other Debt Service Fund
Fund Balance	
Balance, June 30, 2021, (CCFS-311)	$ 192,347,202
Decrease in Investments	(192,347,202)
Balance, June 30, 2021, Audited	$ -

Activity Classification	Object Code				Unrestricted
EPA Revenues:	8630				$ 17,865,056
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	$ 17,865,056	$ -	$ -	$ 17,865,056
Total Expenditures for EPA		$ 17,865,056	$ -	$ -	$ 17,865,056
Revenues Less Expenditures					$ -

Amounts reported for governmental activities in the Statement of Net Position are different because		
Total fund balance		
General Funds	$ 37,646,433	
Special Revenue Funds	1,267,571	
Capital Project Funds	175,370,946	
Debt Service Funds	23,368,480	
Internal Service Funds	13,474,383	
Total fund balance - all District funds		$ 251,127,813
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	621,437,692	
Accumulated depreciation is	(109,792,393)	
Total capital assets, net		511,645,299
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	23,373,686	
Deferred outflows of resources related to OPEB	4,005,143	
Deferred outflows of resources related to pensions	38,666,849	
Total deferred outflows of resources		66,045,678
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.		(6,706,893)

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	$ (676,835,812)	
Lease revenue bonds	(1,560,000)	
Compensated absences	(4,348,481)	
Load banking	(776,060)	
Aggregate net other postemployment benefits (OPEB) liability	(83,359,734)	
Aggregate net pension liability	(165,831,011)	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is	(79,705,186)	
Total long-term liabilities		$ (1,012,416,284)
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	(7,743,630)	
Deferred inflows of resources related to pensions	(5,769,160)	
Total deferred inflows of resources		(13,512,790)
Total net position		$ (203,817,177)

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

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, 2021. 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 is 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 Organization has not elected to use the 10% de minimis cost rate.

Donated Personal Protective Equipment (PPE) (unaudited)
Nonmonetary assistance of PPE received during the emergency period of the COVID-19 pandemic was approximately $1.6 million and is based on the estimated fair market value of the PPE received. The donated PPE was generally provided by donors without information about compliance or reporting requirements associated with federal financial assisting listings or Assistance Listing numbers. The donated PPE is not included in the Schedule of Expenditure of Federal Awards.

Schedule of Expenditures of State Awards

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

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

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

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

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

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

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

Proposition 30 Education Protection Account (EPA) Expenditure Report

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

Reconciliation of Governmental Funds to the Statement of Net Position

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

Independent Auditor's Reports
June 30, 2021

Palomar Community College District

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Palomar Community College District
San Marcos, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the remaining fund information of Palomar Community College District (the District) as of and for the year then ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 9, 2022.

Emphasis of Matter – Change in Accounting Principle
As discussed in Note 2 and Note 13 to the financial statements, the District adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which resulted in a restatement of net position as of July 1, 2020. Our opinions are not modified with respect to this matter.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a material weakness.

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*.

Palomar Community College District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Rancho Cucamonga, California
February 9, 2022

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

Board of Trustees
Palomar Community College District
San Marcos, California

Report on Compliance for Each Major Federal Program
We have audited Palomar Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program
In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Rancho Cucamonga, California
February 9, 2022

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on State Compliance

Board of Trustees
Palomar Community College District
San Marcos, California

Report on State Compliance
We have audited Palomar Community College District's (the District) compliance with the types of compliance requirements described in the 2020-2021 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, 2021.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance of each of the District's state programs based on our audit of the types of compliance requirements referred in the table below. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the 2020-2021 California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed in the table below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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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 and Non-CCAP)
Section 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 444	Apprenticeship Related and Supplemental Instruction (RSI) Funds
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D and 51 State Bond Funded Projects
Section 491	Education Protection Account Funds
Section 499	COVID-19 Response Block Grant Expenditures

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

The District reports no attendance for classes with To Be Arranged Hours (TBA); therefore, the compliance tests within this section were not applicable.

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

Unmodified Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2021.

The purpose of this report on State compliance is solely to describe the results of our testing based on the requirements of the 2020-2021 California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Rancho Cucamonga, California
February 9, 2022

Schedule of Findings and Questioned Costs
June 30, 2021

Palomar Community College District

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
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:

Name of Federal Program or Cluster	Federal Assistance Listing Number/ Federal CFDA Number
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

Dollar threshold used to distinguish between type A and type B programs:	$972,759
Auditee qualified as low-risk auditee?	Yes

STATE COMPLIANCE

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

The following finding represents a material weakness related to the financial statements that is required to be reported in accordance with *Government Auditing Standards*.

2021-001 Financial Reporting

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

Condition
Material Weakness – An adjustment in the Other Debt Service Fund was required in order to conform to the BAM and GAAP during the District's closing process in the amount of $192,347,202.

Questioned Costs
There were no questioned costs associated with the condition identified.

Context
The District had an unaudited fund balance in the Other Debt Service Fund of $192,347,202.

Effect
An adjustment to the financial statements were reviewed with management and accepted for posting.

Cause
The District had previously issued crossover bonds that were paid off on August 1, 2021 and then issued refunding bonds in the current fiscal year. Since these monies were placed in an escrow account and defeased outstanding debt of the District these monies should not be accounted for within the District's funds.

Recommendation
The District should implement a control to review all activities within the Other Debt Service Fund.

Repeat Finding (Yes or No)
No.

Views of Responsible Officials and Corrective Action Plan
The District will be implementing steps and processes to ensure appropriate review and reconciliation of activities within the Other Debt Service Fund. Having adequate staffing levels will allow sufficient time and resources to review funds and avoid such errors going forward.

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.

2021-002 Reporting

Program Name: Higher Education Relief Funds, Institutional Portion
Federal Assistance Listing Numbers: 84.425F
Federal Agency: U.S. Department of Education (ED)
Direct funded by the U.S. Department of Education (ED)

Criteria or Specific Requirement
Section 18004(a)(1) of the Coronavirus Aid, Relief, and Economic Security Act required that institutions that received the HEERF 18004(a)(1) Student Aid Portion and Institutional Aid Portion award to publicly post certain information on their website for each calendar quarter no later than ten days after the end of each calendar quarter.

Condition
Significant Deficiency in Internal Control Over Compliance - The quarter ended December 31, 2020 and the quarter ended March 31, 2021 institutional portion reports were tested. All reports were required to be publicly available no later than ten days after the end of the calendar quarter. Both reports were finalized on January 10, 2022. Therefore, the District did not meet the timeliness requirement.

Questioned Costs
There are no questioned costs associated with the noncompliance.

Context
The District has one college that is required to report institutional grant metrics and other data within 10 days of the end of each calendar quarter, or as directed by the U.S. Department of Education. A sample of two of four required institutional reports were reviewed for compliance, with both reports not submitted in a timely manner.

Effect
The District’s institutional quarter end reports were submitted to the U.S. Department of Education outside of the required timeline.

Cause
There was a lack of oversight in the quarterly reporting requirement for the student aid portion and institutional portion reporting.

Repeat Finding (Yes or No)
No.

Recommendation
The District should ensure that reporting requirements and deadlines are clearly communicated to all staff, and procedures in place to ensure requirements and deadlines are met.

View of Responsible Officials and Corrective Action Plan
Procedures will be put in place and reporting will be modified and improved to ensure deadlines are met. Hiring is underway to bring in sufficient staff which will keep the District from falling behind in the future.

None reported.

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

February 9, 2022

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

We have audited the financial statements and conducted our performance audit of Palomar Community College District's (the District) General Obligation Bond Fund (Measure M) as of and for the year ended June 30, 2021, and have issued our reports thereon dated February 9, 2022. Professional standards require that we advise you of the following matters relating to our audits.

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

As communicated in our engagement letter dated September 2, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Additionally, our responsibility, as described by professional standards, is to conduct a performance audit in accordance with *Government Auditing Standards*. Our audit of the financial statements and performance audit do not relieve you or management of your respective responsibilities.

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

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

Planned Scope and Timing of the Audits

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

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

Financial Statement Disclosures

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

Significant Difficulties Encountered during the Audits

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

Uncorrected and Corrected Misstatements

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

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

Measure M

Understatement of Cash in County Treasury (fair market value adjustment)	$677,617

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

The effect of these uncorrected misstatement as of and for the year ended June 30, 2021, is an understatement of the net change in fund balance of approximately $677,671 and understatement of fund balance of approximately $677,617.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated February 9, 2022.

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Modification of the Auditor's Report

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

Emphasis of Matter
As discussed in Note 1, the financial statements of the General Obligation Bond Fund specific to Measure M are intended to present the financial position and the changes in financial position attributable to the transactions of those Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2021, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

Eide Bailly LLP

Rancho Cucamonga, California

Financial and Performance Audits
Measure M General Obligation Bond Construction Fund
June 30, 2021

Palomar Community College District

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Financial Audit
Measure M General Obligation Bond Construction Fund
June 30, 2021

Palomar Community College District

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the Palomar Community College District's (the District) Measure M General Obligation Bond Construction Fund, as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure M General Obligation Bond Construction Fund of the District as of June 30, 2021, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1, the financial statements of the General Obligation Bond Construction Fund specific to Measure M are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2021, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2022, on our consideration of the Palomar Community College District's Measure M General Obligation Bond Construction Fund 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 Palomar Community College District's Measure M General Obligation Bond Construction Fund 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 Palomar Community College District's Measure M General Obligation Bond Construction Fund internal control over financial reporting and compliance.

Eide Bailly LLP

Rancho Cucamonga, California
February 9, 2022

Assets	
Investments	162,272,286
Accounts receivable	281,819
Due from other funds	2,389
Prepaid expenditures	101,478
Total assets	$ 162,657,972
Liabilities and Fund Balance	
Liabilities	
Accounts payable	$ 1,904,462
Due to other funds	22,877
Total liabilities	1,927,339
Fund Balance	
Nonspendable	101,478
Restricted for capital projects	160,629,155
Total fund balance	160,730,633
Total liabilities and fund balance	$ 162,657,972

Revenues	
Investment income	$ 1,582,735
Expenditures	
Classified salaries	342,427
Employee benefits	168,654
Services and operating expenditures	523,562
Capital outlay	6,035,030
Total expenditures	7,069,673
Change in Fund Balance	(5,486,938)
Fund Balance, Beginning	166,217,571
Fund Balance, Ending	$ 160,730,633

Note 1 - Summary of Significant Accounting Policies

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

Financial Reporting

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

Fund Accounting

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

Basis of Accounting

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

Budgets and Budgetary Accounting

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

Encumbrances

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

Prepaid Expenditures

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates and those differences could be material.

Fund Balance

As of June 30, 2021, the fund balance is classified as follows:

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

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

Note 2 - Investments

Policies and Practices

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

Investment in County Treasury

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the San Diego County Investment Pool. The District maintains a Measure M General Obligation Bond Construction Fund investment of $162,272,286 with the San Diego County Investment Pool, with an weighted average maturity of 613 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the San Diego County Investment Pool is rated AAAf/S1 by Fitch Ratings agency.

Note 3 - Accounts Receivable

Accounts receivable at June 30, 2021, consisted of accrued interest for a total of $281,819.

Note 4 - Interfund Receivables/Payables

The Unrestricted General Fund owes the Measure M General Obligation Bond Construction Fund $2,389 for reimbursement of salaries. The Measure M General Obligation Bond Construction Fund owes $22,877 to various funds for bond related expenditures.

Note 5 - Accounts Payable

Accounts payable at June 30, 2021, consisted of capital outlay for a total of $1,904,462.

Note 6 - Commitments and Contingencies

As of June 30, 2021, the District had approximately $4.9 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.

Capital Project	Remaining Construction Commitment	Expected Date of Completion
PC Fallbrook Education Center	$ 114,065	June 2022
PC Rancho Bernardo Education Center	31,816	June 2022
Library and Learning Resource Center	2,199,155	June 2022
Athletics Complex	680,876	June 2023
Maintenance and Operations Bldg	4,375	June 2022
PC Fallbrook Education Center	1,778,924	June 2025
Athletics Complex	47,196	June 2024
Borrego Springs	4,686	June 2022
Total	$ 4,861,093	

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 Measure M General Obligation Bond Construction Fund at June 30, 2021.

Note 7 - Subsequent Events

On October 20, 2021, the District issued $184,000,000 Election of 2016 General Obligation Bonds, Series 2021D current interest bonds. The District issued $8,630,000 in federally taxable bonds bearing an interest rate of 0.15% and a maturity date of February 1, 2022. In addition, the District issued $175,370,000 in tax exempt bonds. The bonds interest payments are due semiannually on February 1, and August 1 of each year, commencing February 1, 2022 with interest rates ranging from 3.00% to 4.00%. The bonds are being issued to finance the acquisition, construction, modernization and equipping of District sites and facilities and pay the costs of issuance of the bonds.

Independent Auditor’s Report
June 30, 2021

Palomar Community College District

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Palomar Community College District's (the District) Measure M General Obligation Bond Construction Fund, as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated February 9, 2022.

Emphasis of Matter

As discussed in Note 1, the financial statements of the General Obligation Bond Construction Fund specific to Measure M are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2021, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Palomar Community College District's Measure M General Obligation Bond Construction Fund 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 Palomar Community College District's Measure M General Obligation Bond Construction Fund internal control. Accordingly, we do not express an opinion on the effectiveness of the Palomar Community College District's Measure M General Obligation Bond Construction Fund 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 Measure M General Obligation Bond Construction Fund financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's Measure M General Obligation Bond Construction Fund 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 Measure M General Obligation Bond Construction Fund internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Rancho Cucamonga, California
February 9, 2022

None reported.

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

Performance Audit
Measure M General Obligation Bond Construction Fund
June 30, 2021

Palomar Community College District

Independent Auditor's Report on Performance

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

We were engaged to conduct a performance audit of the Palomar Community College District's (the District) Measure M General Obligation Bond Construction Fund for the year ended June 30, 2021.

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

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

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

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

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

Eide Bailly LLP

Rancho Cucamonga, California
February 9, 2022

Authority for Issuance

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

The District received authorization from an election held in November 2006 to issue bonds of the District in an aggregate principal amount not to exceed $694,000,000 to finance specific acquisition, construction, and modernization projects approved by eligible voters within the District. The Measure required approval by at least 55% of the votes cast by eligible voters within the District. The Measure M Bond Funds represent the authorized bond issuance of the Series 2006A, Series 2006B, Series 2006C, Series 2006D, 2015 Refunding bonds and Series 2021D.

Purpose of Issuance

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

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

Authority for the Audit

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

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

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

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

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

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

Objectives of the Audit

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

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2020 to June 30, 2021. The population of expenditures tested included all object and project codes associated with the Bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2021, were not reviewed or included within the scope of our audit or in this report.

Methodology

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2021, for the Measure M General Obligation Bond Construction Fund. Within the fiscal year audited, we obtained the actual invoices, purchase orders, and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIIIA, Section 1(b)(3)(C) of the California Constitution and Measure M as to the approved bond projects list. We performed the following procedures:

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

2. We selected a sample of expenditures using the following criteria:
   a. We considered all expenditures recorded in all object codes.
   b. We considered all expenditures recorded in all projects that were funded from July 1, 2020 through June 30, 2021 from Measure M bond proceeds.
   c. We selected a sample of expenditures using professional judgement, based on risk assessment and consideration of coverage of all object codes and projects starting July 1, 2020 and ending June 30, 2021.

3. Our sample included transaction totaling $5,709,496. This represents 81% of the total expenditures of $7,069,673.

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

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

Conclusion

The results of our tests indicated that, in all significant respects, Palomar Community College District has properly accounted for the expenditures held in the Measure M General Obligation Bond Construction Fund and that such expenditures were made for authorized Bond projects. Further, it was noted that funds held in the Measure M General Obligation Bond Construction Fund, and expended by the District, were used for salaries only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

None reported.

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