



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.

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

Rancho Cucamonga, California



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

**Palomar Community College District**

**FINANCIAL AUDIT**

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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.

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

Rancho Cucamonga, California  
February 9, 2022

Palomar Community College District  
Measure M General Obligation Bond Construction Fund

Balance Sheet  
June 30, 2021

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

Palomar Community College District  
Measure M General Obligation Bond Construction Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Year Ended June 30, 2021

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

**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<br>Investment Type           | Maximum<br>Remaining<br>Maturity | Maximum<br>Percentage<br>of Portfolio | Maximum<br>Investment<br>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 AAAs/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.

Palomar Community College District  
Measure M General Obligation Bond Construction Fund  
Notes to Financial Statements  
June 30, 2021

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**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<br>Construction<br>Commitment | Expected<br>Date of<br>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                         |
|                                      | <u>\$ 4,861,093</u>                     |                                   |
| Total                                |   |                                   |

**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.



Rancho Cucamonga, California  
February 9, 2022

Palomar Community College District  
Measure M General Obligation Bond Construction Fund  
Financial Statement Findings  
June 30, 2021

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None reported.

Palomar Community College District  
Measure M General Obligation Bond Construction Fund  
Summary Schedule of Prior Audit Findings  
June 30, 2021

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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 XIII A, 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 XIII A, 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 XIII A, 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.

A handwritten signature in black ink that reads "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 XIII A, 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 XIII A, 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.

Palomar Community College District  
Measure M General Obligation Bond Construction Fund  
Schedule of Findings and Questioned Costs  
June 30, 2021

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None reported.

Palomar Community College District  
Measure M General Obligation Bond Construction Fund  
Summary Schedule of Prior Audit Findings  
June 30, 2021

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