

PROPOSITION 39 GENERAL OBLIGATION BONDS

PROPOSITION M BOND CONSTRUCTION
FUND OF

PALOMAR COMMUNITY
COLLEGE DISTRICT

FINANCIAL AUDIT REPORT

For the Fiscal Year Ended
June 30, 2012



christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
AUDIT REPORT
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For the Fiscal Year Ended June 30, 2012**

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**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2012**

The Palomar Community College District was established in 1946 and serves a district covering 2,555 square miles, an area slightly larger than the state of Delaware. The District includes a 200-acre campus, one education center located in Escondido, and five outreach sites in Fallbrook, Pauma Valley, Borrego Springs, Mt. Carmel and Camp Pendleton. This District operates under a locally elected five-member Board form of government and provides educational services to more than 27,000 full-time and part-time students each fall and spring semester.

In November 2006, the District's voters approved by more than the required 55% favorable vote, Proposition M, authorizing the issuance and sale of general obligation bonds, not to exceed \$694,000,000. Proposition M was designed to provide funds to maintain and modernize the 60 year old college's San Marcos campus and to create new educational opportunities in under served areas of the District. The basis for Proposition M is the Master Plan 2022, which was published in August 2003.

- In May, 2007, Series 2006A Proposition M general obligation bonds were sold. Series 2006A consisted of \$160,000,000 of current interest bonds. The bonds will mature through 2032.
- In October, 2010, Series 2010B and Series 2010B-1 Proposition M general obligation Bonds were sold. Series 2010B consisted of \$1,500,000 of current interest bonds, \$27,883,491 of capital appreciation bonds and \$62,115,410 of convertible capital appreciation bonds. Series 2010B-1 consisted of \$83,500,000 of Build America Bonds. The bonds will mature through 2046.

Proposition M is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Introduction and Citizens' Oversight Committee Member Listing, continued
June 30, 2012**

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition M including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Oversight Committee was comprised of the following members as of June 30, 2012:

Name	Title	Representation
Glen Winn	Chair	Active in a Senior Citizens' Organization
Terry L. Ardinger	Co-Chair	Community-at-Large
Jesse Lyn Clark	Member	Active in the Support and Organization of the Community College of the District
Thomas W. Clark	Member	Community-at-Large
Rod D. Jones	Member	Active in a Business Organization
Evelyn Lucero	Member	Student who is Currently Enrolled in the District and Active in a Community College Group
John H. Nabors	Member	Active in a Bona Fide Taxpayers' Organization

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

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State Board of Accountancy

Governing Board Members and
Proposition M Citizens' Oversight Committee
Palomar Community College District
San Marcos, California

We have audited the accompanying balance sheet of the Proposition M bond construction fund of Palomar Community College District (the "District") as of June 30, 2012, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2012. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the individual Proposition M bond construction fund ("Proposition M"), consisting of the net construction proceeds of Proposition M Series 2006A, 2010B and 2010B-1 general obligation bonds as issued by the District, through the County of San Diego, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition M bond construction fund of Palomar Community College District as of June 30, 2012, and the results of its operations for the fiscal year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, on our consideration of Palomar Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Proposition M bond construction fund of Palomar Community College District's basic financial statements. The supplementary information section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Christy White Associates

San Diego, California
September 28, 2012

FINANCIAL SECTION

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Balance Sheet
June 30, 2012**

ASSETS	
Cash in county treasury	\$ 162,226,694
Accounts receivable	152,933
Due from other funds	<u>47,491</u>
Total Assets	\$ 162,427,118
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 4,074,581
Due to other funds	<u>70,506</u>
Total Liabilities	<u>4,145,087</u>
Fund Balance	
Restricted for capital projects	<u>158,282,031</u>
Total Liabilities and Fund Balance	\$ 162,427,118

The accompanying notes to financial statements are an integral part of this statement.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2012**

REVENUES	
Interest income	\$ 1,058,115
Total Revenues	<u>1,058,115</u>
EXPENDITURES	
Salaries	285,582
Benefits	153,683
Other expenses and services	3,944,371
Facilities acquisition and construction	<u>41,761,354</u>
Total Expenditures	<u>46,144,990</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(45,086,875)</u>
Net Change in Fund Balance	(45,086,875)
Fund Balance, July 1, 2011	<u>203,368,906</u>
Fund Balance, June 30, 2012	<u>\$ 158,282,031</u>

The accompanying notes to financial statements are an integral part of this statement.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Notes to Financial Statements
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Palomar Community College District was established in 1946 and serves a district covering 2,555 square miles, an area slightly larger than the state of Delaware. The District includes a 200-acre campus, one education center located in Escondido, and five outreach sites in Fallbrook, Pauma Valley, Borrego Springs, Mt. Carmel and Camp Pendleton. This District operates under a locally elected five-member Board form of government and provides educational services to more than 27,000 full-time and part-time students each fall and spring semester.

On November 7, 2006 the District's voters authorized \$694 million in general obligation bonds ("Proposition M") to repair/upgrade aging educational facilities, including classrooms for nursing, emergency medical, and public safety careers, science and high-tech computer labs, outdated plumbing, ventilating, roofing, energy, electrical and safety systems, acquire sites and equipment, and construct new educational facilities.

An advisory committee to the District's Governing Board and Superintendent, the Proposition M Independent Citizens' Oversight Committee ("ICOC") was established pursuant to the requirements of state law and the provisions of Proposition M. The purpose of the ICOC is to inform the public concerning the use of bond proceeds. The ICOC is required by state law to actively review and report on the proper expenditure of taxpayers' money for school construction. The ICOC provides oversight and advises the public as to whether the District is spending the Proposition M funds for school capital improvements within the scope of projects outlined in the Proposition M Project List. In fulfilling its duties, the ICOC reviews, among other things, the District's annual performance and financial audits of Proposition M activity.

The statements presented are for the individual Proposition M bond construction fund of the District, consisting of the net construction proceeds of Proposition M Series 2006A, 2010B and 2010B-1 general obligation bonds as issued by the District, through the County of San Diego, and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, and then an adjustment to market value is performed at June 30. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

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

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's Governing Board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Fund Balance

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance in the Proposition M bond construction fund is considered restricted.

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as cash in county treasury for \$162,226,694.

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

Cash in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting 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.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the County’s investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$162,226,694. The District performs a closing adjustment to adjust amortized book value of the cash in County Treasury balance to this amount. The weighted average maturity for this pool as of June 30, 2012 is 370 days.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (continued)

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. Per County investment policy, the investments within the San Diego County Investment Pool are rated A or higher by Moody's Investors Service.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable of \$152,933 as of June 30, 2012 consisted of interest earned on the District's investment in the County Treasury.

NOTE 4 – CONSTRUCTION COMMITMENTS

The Proposition M bond construction fund had construction commitments of \$52,940,267 as of June 30, 2012.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related costs as reimbursement. All other interfund transactions are treated as transfers.

Individual interfund receivable balances as of June 30, 2012 consist of \$47,491 due from the General Fund, Capital Outlay Projects Fund and the Student Body Center Fee Trust Fund to the Proposition M bond construction fund for reimbursement of various charges coded to the Proposition M bond construction fund which related to other funds. Individual interfund payable balances as of June 30, 2012 consist of \$70,506 due from the Proposition M bond construction fund to the General Fund, Child Development Fund and Retiree Benefits Fund to reimburse for Proposition M charges that were incorrectly coded to other funds by the County and the District and to cover the applicable portion of retiree health benefits.

NOTE 6 – PROPOSITION M BOND CONSTRUCTION FUND GENERAL OBLIGATION BONDS

As of June 30, 2012, the principal balance outstanding on the District’s Proposition M general obligation bonds, including accreted interest to date, is indicated as follows:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2011*	Accreted Interest Addition	Deductions	Outstanding June 30, 2012	Due in one Year
2006A	5/2/2007	4.25% - 5.0%	2032	\$ 160,000,000	\$ 147,530,000	\$ -	\$ 2,455,000	\$ 145,075,000	\$ 2,745,000
2010B	10/28/2010	2.36% - 6.72%	2046	91,498,901	92,713,480	5,740,885	1,500,000	96,954,365	-
2010B-1	10/28/2010	7.19%	2046	83,500,000	83,500,000	-	-	83,500,000	-
				<u>\$ 334,998,901</u>	<u>\$ 323,743,480</u>	<u>\$ 5,740,885</u>	<u>\$ 3,955,000</u>	<u>\$ 325,529,365</u>	<u>\$ 2,745,000</u>

- On May 2, 2007, Series 2006A bonds of the Proposition M bond authorization were issued, which consisted of current interest bonds with an initial par amount of \$160,000,000 with stated interest rates of 4.25% to 5.00% and maturing through August 1, 2032.
- On October 28, 2010, Series 2010B of the Proposition M bond authorization was issued, which consisted of current interest bonds, capital appreciation bonds and convertible capital appreciation bonds with initial par amounts of \$1,500,000, \$27,883,491 and \$62,115,410, respectively, and with stated interest rates of 2.36% to 6.72% and maturing through August 1, 2046.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

**NOTE 6 – PROPOSITION M BOND CONSTRUCTION FUND GENERAL OBLIGATION BONDS
(continued)**

- On October 28, 2010, Series 2010B-1 of the Proposition M bond authorization was issued and was designated as Build America Bonds under Section 1400U of the Internal Revenue Code. The bonds were issued with initial par amount of \$83,500,000, with a stated interest rate of 7.19% and maturing through August 1, 2046.

The annual requirements to amortize all Proposition M general obligation bonds payable outstanding as of June 30, 2012, are as follows:

Year Ended June 30,	Principal*	Interest	Accreted Interest	Interest Subsidy	Total
2012-13	\$ 2,745,000	\$ 12,936,565	\$ -	\$ (2,102,446)	\$ 13,579,119
2013-14	3,060,000	12,813,040	-	(2,102,446)	13,770,594
2014-15	3,395,000	12,675,340	-	(2,102,446)	13,967,894
2015-16	4,015,651	12,505,590	29,350	(2,102,446)	14,448,145
2016-17	4,527,396	12,317,340	62,604	(2,102,446)	14,804,894
2018-2022	32,948,818	58,029,200	3,056,182	(10,512,230)	83,521,970
2023-2027	49,536,644	59,143,777	11,158,357	(10,512,230)	109,326,548
2028-2032	62,929,969	76,479,242	7,840,031	(10,512,230)	136,737,012
2033-2037	20,990,367	83,542,400	52,039,633	(10,512,230)	146,060,170
2038-2042	39,287,696	59,165,077	67,827,305	(10,512,230)	155,767,848
2043-2046	95,137,360	19,113,678	28,477,637	(5,558,270)	137,170,405
Accreted Interest	6,955,464	-	(6,955,464)	-	-
	\$ 325,529,365	\$ 418,721,249	\$ 163,535,635	\$ (68,631,650)	\$ 839,154,599

NOTE 7 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

There existed no excess of expenditures over appropriations, by major object accounts in the Proposition M bond construction fund at June 30, 2012.

SUPPLEMENTARY INFORMATION

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2012**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Interest income	\$ 250,000	\$ 1,058,115	\$ 808,115
Total Revenues	250,000	1,058,115	808,115
EXPENDITURES			
Salaries	327,042	285,582	41,460
Benefits	178,748	153,683	25,065
Other expenses and services	3,945,000	3,944,371	629
Facilities acquisition and construction	198,490,564	41,761,354	156,729,210
Total Expenditures	202,941,354	46,144,990	156,796,364
Excess (Deficiency) of Revenues Over (Under) Expenditures	(202,691,354)	(45,086,875)	157,604,479
Net Change in Fund Balance	\$ (202,691,354)	\$ (45,086,875)	\$ 157,604,479

**OTHER INDEPENDENT
AUDITORS' REPORTS**

INDEPENDENT AUDITORS' 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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board Members and
Proposition M Independent Citizens' Oversight Committee
Palomar Community College District
San Marcos, California

We have audited the financial statements of the Proposition M bond construction fund of Palomar Community College District as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Palomar Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Palomar Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Palomar Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Palomar Community College District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

SAN DIEGO
2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA
8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA
1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222
fax: 619.260.9085
www.cwacpa.com

Licensed by the California
State Board of Accountancy

Compliance and Other Matters

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

This report is intended solely for the information and use of the District's Governing Board, the Proposition M bond construction fund Independent Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Palomar Community College District and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
September 28, 2012

FINDINGS AND RESPONSES SECTION

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2012**

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

We found Palomar Community College District's accounting systems to be functioning efficiently and effectively to account for the Proposition M bond construction fund. In addition, our tests resulted in no findings and recommendations related to the financial audit of the Proposition M bond construction fund for the fiscal year ended June 30, 2012.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2012**

There were no findings and recommendations related to the financial audit of the Proposition M bond construction fund for the fiscal year ended June 30, 2011.