

**PALO VERDE COMMUNITY
COLLEGE DISTRICT**

**County of Riverside
Blythe, California**

**REPORT ON AUDIT
June 30, 2012**

PALO VERDE COMMUNITY COLLEGE DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Palo Verde Community College District
Blythe, California

We have audited the accompanying financial statements of the business-type activities of Palo Verde Community College District (the "District"), as of and for the year ended June 30, 2012, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 the 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 the 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Palo Verde Community College District, as of June 30, 2012, and the results of its operation, changes in net assets and cash flows for the fiscal year then ended 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 December 31, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Board of Trustees
Palo Verde Community College District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the schedules of funding progress and employer contributions on pages 36 and 37 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and the supplementary section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and supplementary sections have 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 them.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 31, 2012

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2012

This section of Palo Verde Community College District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2012.

Introduction

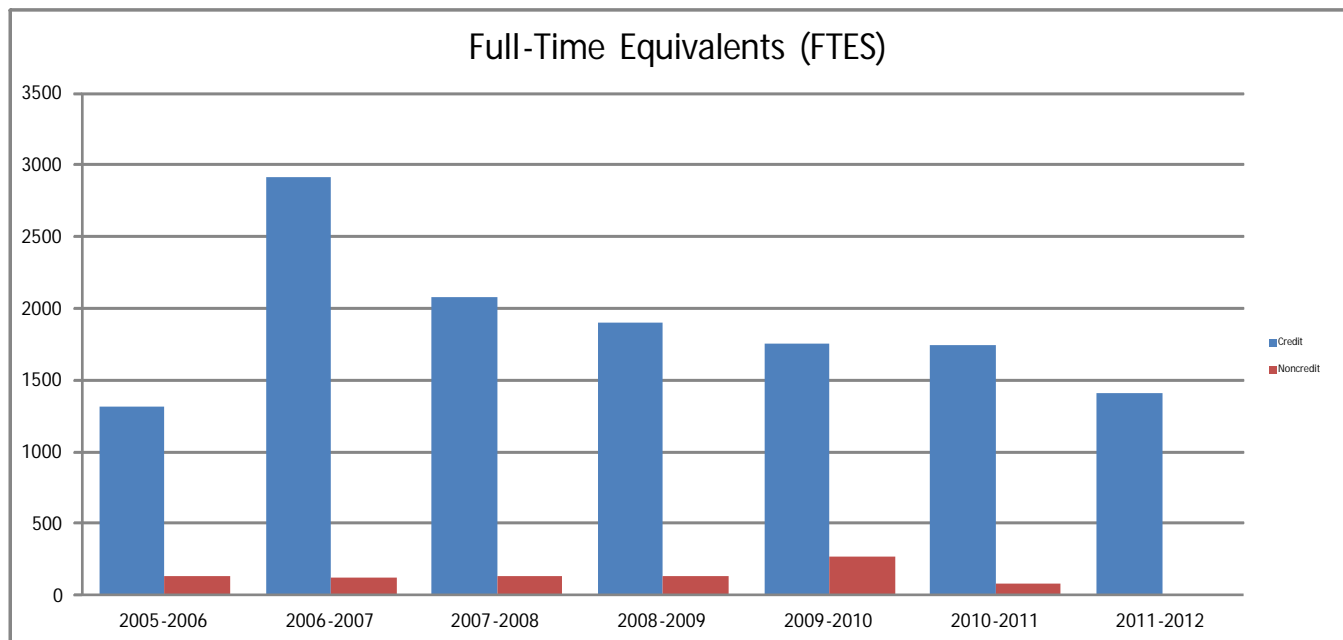
The following discussion and analysis provides an overview of the financial position and activities of the Palo Verde Community College District (the "District") for the years ended June 30, 2011 and June 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

Palo Verde Community College is an open access, public educational district, dedicated to providing excellence in education, cultural enrichment, economic development and services to assist members of the community to meet their educational goals. People of all ages and backgrounds attend early morning to late evening and weekends to take advantage of a wide variety of course offerings.

Enrollment Highlights

During 2011-12, total full-time equivalent students decreased approximately 2.38% for both credit and non-credit courses. Credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment.

Trend of full-time equivalent students as reported on the annual report:



PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2012

Financial Highlights

This section is to provide an overview of the District's financial activities.

As required by the adopted accounting principles, the annual report consists of three basic financial statements that provide information on the District as a whole:

- The Statement of Net Assets
- The Statement of Revenue, Expenses and Changes in Net Assets
- The Statement of Cash Flows

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current) and net assets (assets minus liabilities).

From the data presented, readers of the Statement of Net Assets 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 Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities is one indicator of the current financial conditions of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The Net Assets are divided into three major categories:

- Invested in capital assets – The District's equity amount in property, plant and equipment, net of related debt.
- Restricted – Though expendable, are to be spent only for the purposes and within the parameters that are determined and defined by external entities, agreements, and/or donors.
- Unrestricted – available for any lawful expenditure that fulfills the mission of the District. Although unrestricted, the District's governing board may place internal designations on these net assets, and it retains the power to change, remove or modify these designations.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2012

The Statement of Net Assets, as of June 30, 2012 and June 30, 2011, are summarized below:

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>
ASSETS			
Current assets	\$ 17,456,780	\$ 22,560,165	\$ (5,103,385)
Non-current assets	<u>70,884,704</u>	<u>70,269,389</u>	<u>615,315</u>
Total Assets	<u>88,341,484</u>	<u>92,829,554</u>	<u>(4,488,070)</u>
LIABILITIES			
Current liabilities	2,106,436	4,326,997	(2,220,561)
Non-current liabilities	<u>37,902,458</u>	<u>38,447,968</u>	<u>(545,510)</u>
Total Liabilities	<u>40,008,894</u>	<u>42,774,965</u>	<u>(2,766,071)</u>
Total Net Assets	<u>\$ 48,332,590</u>	<u>\$ 50,054,589</u>	<u>\$ (1,721,999)</u>

- Approximately 17% and 82% of the cash and cash equivalent current assets is cash deposited with the Riverside County Treasurer's Office and a fiscal agent, respectively. The Statement of Cash flows contained within the financial statements provides greater detail regarding the sources and uses of cash and the net increase (decrease) in cash.

- The majority of the accounts receivable balance is from federal and state sources for grant and entitlement programs.

- Capital assets are the net historical value of land, buildings, and equipment less accumulated depreciation. As of June 30, 2012, the District owned capital assets of \$70,884,704. The breakdown of this total net value can be found in Note 4 of the financial statements.

- Accounts payable and accrued liabilities consists of payables to vendors, accrued payroll and benefits (\$783,182).

- Noncurrent liabilities consist of compensated absences, loan payable (building), other postemployment benefit obligation, General Obligation Bonds, and Certificates of Participation.

- Unrestricted net assets totaled (\$305,617).

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2012

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results and the non-operating revenues and expenses of the District for the year.

Generally, operating revenues are earned for providing goods and services to customers and constituencies of the District. Operating expenses are incurred to acquire or produce those goods and services. Non-operating revenues are those received or pledged for which goods and services are not directly provided by the District. State general apportionment, while budgeted for operations, is considered non-operating revenues because the funds are provided by the State Legislature to the District without the Legislature directly receiving commensurate goods and services for those funds.

The Statement of Revenues, Expenses and Changes in Net Assets, for the fiscal years ended June 30, 2012 and June 30, 2011, are summarized below:

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>
Revenues			
Operating revenues	\$ 3,812,089	\$ 4,461,226	\$ (649,137)
Non-operating revenues	12,751,010	12,753,376	(2,366)
Other revenues	2,550,591	7,670,099	(5,119,508)
Total Revenues	<u>19,113,690</u>	<u>24,884,701</u>	<u>(5,771,011)</u>
Expenses			
Operating expenses	17,185,439	18,412,354	1,226,915
Non-operating expenses	1,970,237	1,990,353	20,116
Depreciation	1,304,969	1,283,370	(21,599)
Total Expenses	<u>20,460,645</u>	<u>21,686,077</u>	<u>1,225,432</u>
Excess (deficiency)	(1,346,955)	3,198,624	(4,545,579)
Net Assets - Beginning	50,054,589	46,855,965	3,198,624
Prior period adjustment	(375,044)		(375,044)
Net Assets - Ending	<u>\$ 48,332,590</u>	<u>\$ 50,054,589</u>	<u>\$ (1,721,999)</u>

- Enrollment fees are generated by students who are residents of California and residents of neighboring Arizona counties who have approved reciprocity agreements. Out of state tuition plus enrollment fees are paid by all non-resident and foreign students.

- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2012

- Personnel costs are 61% of operating expenses, which includes all funds and depreciation. The balance of operating expenses is for supplies, other services, and capital outlay items below the capitalization threshold, insurance, utilities and depreciation expense.
- State apportionments, non-capital consists of state apportionment and other apportionments. State apportionment represents total general apportionment earned less regular enrollment, less property taxes.
- Local property taxes are received through the Auditor-Controller's Office for Riverside County and San Bernardino County. The amount received for property taxes is deducted from the total state general apportionment that is calculated by the State for the District.
- State taxes and other revenues consist primarily of State lottery revenue.
- Functional expenses are included in Note 9 of the financial statements.

Operating Expenses (by natural classification) – object:

	2012	2011	Net Change
Salaries	\$ 7,392,840	\$ 8,968,416	\$ 1,575,576
Benefits	3,868,197	3,830,570	(37,627)
Payments to students	1,752,054	1,773,552	21,498
Supplies, materials, and other expenses	3,790,504	3,281,688	(508,816)
Utilities	381,844	558,128	176,284
Depreciation	1,304,969	1,283,370	(21,599)
 Total Operating Expenses	 <u>\$ 18,490,408</u>	 <u>\$ 19,695,724</u>	 <u>\$ 1,205,316</u>

- Compensation consists of salaries, fixed charges (District contributions to retirement systems, workers' compensation and unemployment insurance, Social Security and Medicare), and health and welfare benefits borne by the District.
- Supplies, materials, other operating expenses and services include expenditures for software, reference books, software licensing and consultants, repairs and maintenance of buildings and equipment.
- Student financial aid relates to federal and state assistance paid to students.
- Utilities consist of electricity, telephone, water, heating and waste disposal.
- Depreciation is capital assets net depreciation

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2012

Statement of Cash Flows

The Statement of Cash Flow provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due and 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 provided by the operating activities of the District. The second part details cash received for non-operating, non-investing and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash provided by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

The Statement of Cash Flows, for the years ended June 30, 2012 and June 30, 2011, are summarized below:

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>
Net cash provided by (used in)			
Operating activities	\$ (13,224,696)	\$ (10,842,509)	\$ (2,382,187)
Non-capital financing activities	14,770,386	12,334,387	2,435,999
Capital financing activities	(2,932,905)	(2,129,075)	(803,830)
Investing activities	81,199	92,986	(11,787)
Net decrease in cash and cash equivalents	<u>(1,306,016)</u>	<u>(544,211)</u>	<u>(761,805)</u>
Cash balance, beginning of year	<u>17,348,991</u>	<u>17,893,202</u>	<u>(544,211)</u>
Cash balance, end of year	<u>\$ 16,042,975</u>	<u>\$ 17,348,991</u>	<u>\$ (1,306,016)</u>

The primary cash receipts from operating activities are from student enrollment fees and tuition, federal, state and local grants and contracts. The primary cash outlays are payments of wages, benefits, vendors, and students related to the instruction program.

- General apportionment is the primary source of non-capital financing. The three main components of general apportionment are state apportionment, property taxes and enrollment fees.
- The primary use included in capital and related financing activities is the purchase of capital assets (building improvements and equipment).
- Cash earned from investing activities is interest earned on cash in bank.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2012

The District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of the students, clubs and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because we cannot use these assets to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Capital Assets

A comparison of capital assets, net of depreciation, is summarized below:

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>
Land and construction in progress	\$ 26,295,791	\$ 24,598,708	\$ 1,697,083
Buildings and equipment	53,454,518	53,831,590	(377,072)
Accumulated depreciation	<u>(8,865,605)</u>	<u>(8,160,909)</u>	<u>(704,696)</u>
Total Capital Assets	<u>\$ 70,884,704</u>	<u>\$ 70,269,389</u>	<u>\$ 615,315</u>

Debt

At June 30, 2012, the District had \$39,225,712 in long-term debt. A comparison of long-term debt is summarized below:

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>
Bonds payable	\$ 5,394,415	\$ 5,209,879	184,536
Certificates of participation	31,995,000	31,995,000	-
Loan payable-building	128,572	192,858	(64,286)
SERP	1,250,071	830,701	419,370
OPEB	206,882	106,241	100,641
Compensated absences	<u>250,772</u>	<u>432,676</u>	<u>(181,904)</u>
Total Long-term Liabilities	<u>\$ 39,225,712</u>	<u>\$ 38,767,355</u>	<u>\$ 458,357</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2012

Economic Factors

The economic position of Palo Verde Community College is closely tied to that of the State of California. As the economy continues to decline, historically, community colleges tend to experience an increase in enrollment. Unfortunately, due to cuts to the State budget which cuts the funding received by the College to educate students, the enrollment has declined slightly.

In July 2011, the District entered into a Tax and Revenue Anticipation Note (TRANs) in the amount of \$2,157,635 which was paid in full by April 2012. The TRANs is a tool used by the District to ensure an adequate cash flow due to the continual deferrals of apportionment dollars from the State. The District will continue to request approval of TRANs in the upcoming years to ensure the District maintains adequate cash flow.

All industries, including community colleges, continue to experience increased costs for services and especially costs for employee benefits, insurance and utilities. Beginning 2002-2003, the District began making contributions to PERS for its employees and retirees. The PERS rate, for the year ending June 30, 2012, was 10.923%.

In 2010-11, the smaller colleges, which Palo Verde Community College is considered, did not experience the statewide cut to apportionment that the rest of the system felt. With the rest of the colleges absorbing these cuts, we will not be receiving any increases in apportionment until the 2010-11 revisions are restored.

During the elections in November 2012, Proposition 30 was passed which will help the community college budgets in the future. With the passage of this proposition, the sales tax will increase for 4 years and the personal income taxes of those making more than \$250,000 will increase for a couple years longer than the sales tax will exist. This was passed by the voters to help mitigate the cuts being aimed at the community college system.

The District changed its approach to budget development in 2011-12, which included not using the ending balance as part of the budget, dividing up accountability of the budget monitoring, and creating a more transparent approach to observing and monitoring the budget. The District continued with this practice in the development of the 2012-13 budget. The District also made considerable cuts to the budget in order to bring part of the debt service payment into the general budget.

The District experienced extensive changes to administration during the 2011-12 year. The Vice-President of Administration retired June 30, 2011, the Superintendent/President retired December 31, 2011, the Vice-President of Student Services resigned in March 2012, and the Vice-President of Instruction resigned his position on June 30, 2012. The District conducted a Superintendent/President search in the spring of 2012 and opted to stay with the Interim Superintendent/President for another year. The Vice-President of Student Services and Instruction positions have been combined and filled with an interim person with a search being conducted in the spring of 2013. The Vice-President of Administration was filled with Chief Business Officer and Director of Human Resources positions in the fall of 2012.

Management will continue to a close watch over resources to react to any internal or external issues, if and when they may arise.

As of this writing, the District is not aware of any other currently know facts, decisions, or conditions that are expected to have any other significant effect on the financial position or results of operations during the fiscal year beyond unknown variations having global effect on virtually all types of business operations, especially within the State of California.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2012

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Office of Business Services, Palo Verde Community College, One College Drive, Blythe, California 92225.

BASIC FINANCIAL STATEMENTS

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Net Assets
June 30, 2012

	<u>District</u>	<u>Foundation</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,042,975	\$ 114,302
Investments	-	909,515
Beneficial interest in FCCC endowment	-	174,900
Accounts receivable	995,157	-
Prepaid expenses	418,648	-
Total current assets	17,456,780	1,198,717
Non-Current assets:		
Fixed assets, net	70,884,704	-
Total non-current assets	70,884,704	-
TOTAL ASSETS	<u>\$ 88,341,484</u>	<u>\$ 1,198,717</u>
LIABILITIES		
Current liabilities:		
Current liabilities	\$ 783,182	\$ -
Current portion of long-term debt	1,323,254	-
Total current liabilities	2,106,436	-
Non-Current Liabilities	37,902,458	-
TOTAL LIABILITIES	<u>40,008,894</u>	<u>-</u>
NET ASSETS		
Invested in capital assets	38,761,132	-
Restricted for:		
Capital projects	9,547,152	-
Debt service	257,786	-
Other activities	72,137	-
Unrestricted	(305,617)	1,198,717
TOTAL NET ASSETS	<u>48,332,590</u>	<u>1,198,717</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 88,341,484</u>	<u>\$ 1,198,717</u>

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

	<u>District</u>	<u>Foundation</u>
OPERATING REVENUES		
Tuition and fees	\$ 1,295,798	\$ -
Less: Scholarship discounts and allowances	<u>(878,552)</u>	<u>-</u>
Net Tuition and Fees	417,246	-
Grants and contracts		
Federal	1,961,666	-
State	1,220,677	-
Local	15,850	25,724
Auxiliary enterprise sales and charges	<u>196,650</u>	<u>-</u>
Total Operating Revenues	3,812,089	25,724
OPERATING EXPENSE		
Salaries	7,392,840	-
Benefits	3,868,197	-
Payments to students	1,752,054	-
Supplies, materials, and other expenses	3,790,504	43,763
Utilities	381,844	-
Depreciation	<u>1,304,969</u>	<u>-</u>
Total Operating Expenses	<u>18,490,408</u>	<u>43,763</u>
OPERATING INCOME/(LOSS)	(14,678,319)	(18,039)

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
 For the Fiscal Year Ended June 30, 2012

	<u>District</u>	<u>Foundation</u>
NON-OPERATING REVENUES/(EXPENSES)		
State apportionments, non-capital	10,823,046	-
Local property taxes	1,499,801	-
State taxes and other revenues	348,694	-
Investment income, net	79,469	2,581
Interest expense	<u>(1,970,237)</u>	<u>-</u>
Total non-operating revenues	<u>10,780,773</u>	<u>2,581</u>
Income Before Other Revenues, Expenses, Gains or Losses	(3,897,546)	(15,458)
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES		
State apportionments, capital	2,404,183	-
Grants and contracts, capital	<u>146,408</u>	<u>-</u>
Total Other Revenues, Expenses, Gains or Losses	<u>2,550,591</u>	<u>-</u>
CHANGE IN NET ASSETS	(1,346,955)	(15,458)
NET ASSETS		
Net Assets - Beginning	50,054,589	1,214,175
Prior Period Adjustment	<u>(375,044)</u>	<u>-</u>
Net Assets - Ending	<u>\$ 48,332,590</u>	<u>\$ 1,198,717</u>

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

	District	Foundation
Cash Flows from Operating Activities		
Tuition and fees	\$ 391,045	\$ -
Federal grants and contracts	1,958,632	-
State grants and contracts	1,244,039	-
Local grants and contracts	16,530	25,724
Payments to suppliers	(4,255,372)	(45,464)
Payments for utilities	(381,844)	-
Payments to/on-behalf of employees	(10,581,481)	-
Payments to/on-behalf of students	(1,752,054)	-
Auxiliary enterprise sales and charges	135,809	-
	(13,224,696)	(19,740)
Net cash provided by (used in) operating activities		
Cash Flows from Non-capital Financing Activities		
State apportionments and receipts	12,920,146	-
Property taxes	1,504,411	-
State taxes and other revenues	345,829	-
	14,770,386	-
Net cash provided by (used in) by non-capital financing activities		
Cash Flows from Capital Financing Activities		
State apportionments for capital purposes	4,205,187	-
Local revenue, capital projects	146,408	-
Principal paid on capital debt	(1,940,869)	-
Interest paid on capital debt	(1,897,936)	-
Purchases of capital assets	(3,445,695)	-
	(2,932,905)	-
Net cash provided by (used in) capital financing activities		
Cash Flows from Investing Activities		
Investment income	81,199	37,727
Purchase of investments, net	-	(141,838)
	81,199	(104,111)
Net cash provided by (used in) investing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,306,016)	(123,851)
CASH AND CASH EQUIVALENTS		
Beginning of year	17,348,991	238,153
End of year	\$ 16,042,975	\$ 114,302

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

	<u>District</u>	<u>Foundation</u>
Reconciliation of operating loss to cash used in operating activities		
Operating loss	\$ (14,678,319)	\$ (18,039)
Depreciation and amortization	1,304,969	-
(Increase) decrease in accounts receivable	(66,034)	-
(Increase) decrease in inventory	51,908	-
(Increase) decrease in prepaid expenses	(90,086)	-
Increase (decrease) in accounts payable	(373,610)	(1,701)
Increase (decrease) in supplemental early retirement incentive	808,380	-
Increase (decrease) in other liabilities	(181,904)	-
	<hr/>	<hr/>
Net cash used in operating activities	<u>\$ (13,224,696)</u>	<u>\$ (19,740)</u>

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Fiduciary Net Assets

June 30, 2012

	<u>ASB Trust Fund</u>	<u>Scholarship and Loan Trust Fund</u>
ASSETS		
Cash and cash equivalents	\$ 2,811	\$ 40,422
TOTAL ASSETS	<u>\$ 2,811</u>	<u>\$ 40,422</u>
LIABILITIES		
Due to student groups	\$ 2,811	\$ 40,422
LIABILITIES AND NET ASSETS	<u>\$ 2,811</u>	<u>\$ 40,422</u>

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2012

	ASB Trust Fund	Scholarship and Loan Trust Fund
ADDITIONS		
Other local revenues	\$ 3,504	\$ 72,632
Total Additions	<u>3,504</u>	<u>72,632</u>
DEDUCTIONS		
Supplies and materials and other operating expenses and services	<u>2,417</u>	<u>73,889</u>
CHANGE IN NET ASSETS	<u>1,087</u>	<u>(1,257)</u>
Net Assets - Beginning	<u>1,724</u>	<u>41,679</u>
Net Assets - Ending	<u>\$ 2,811</u>	<u>\$ 40,422</u>

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Palo Verde Community College District (the “District”) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. The District consists of one community college campus located in Blythe, California and one college campus located in Needles, California. While the District is a political subdivision of the State, it is not a component unit of the state in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501 (c)(3), and is therefore exempt from federal taxes.

The District includes all funds, account groups, and other entities that are controlled by or dependent on the District’s governing board for financial reporting purposes. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in generally accounting principles. For financial reporting purposes, the Palo Verde College Foundation (the “Foundation”) is reported in the District’s financial statements because of the significance of its relationship with the District. The Foundation, although a legally separate entity, is reported in the financial statements as if it were part of the District’s operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to provide support to the students and faculty of the District.

Basis of Presentation

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Financial Reporting

The basic financial statements required by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and including Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, include a balance sheet, statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The District is considered a special-purpose government under the provisions of GASB Statement No. 35. Accordingly, the District has chosen to present its basic financial statements using the reporting model for special purpose governments engaged only in business-type activities. This model allows all financial information for the District to be reported in a single column. In accordance with the business-type activities reporting model, the District prepares its statements of cash flows using the direct method. The effect of internal activities between fund or groups of funds has been eliminated from these basic financial statements. The District’s operating revenues includes tuition, fees and federal and state revenues. Operating costs include cost of services as well as materials, contracts, personnel, and depreciation.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2012

Cash and Cash Equivalents

The District participates in the common investment pool of the County, which is stated at cost that approximates fair value. For purposes of the statement of cash flows, the District considers all cash and investments pooled with the County plus any other cash deposits or investments with initial maturities of three months or less to be cash and cash equivalents.

Investments

The District's method of accounting for investments is the fair value method. Fair value is determined by published quotes when they are readily available. Adjustments to fair values are included in the accompanying statement of financial position and statement of activities.

Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. The District recognized for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year.

Inventories

Bookstore, cafeteria, and supply inventories are recorded at cost on the first in-first out basis and expensed on the consumption method.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts restricted as to use pursuant to the requirements of the District's grants, contracts, and debt service requirements.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, 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. Buildings, as well as renovations to buildings, infrastructures, and land improvements, that significantly increase the value or extend the useful life of the structure are capitalized. Interest incurred during construction is not capitalized.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

Depreciation of capital assets is computed and recorded by the straight-line method over the following estimated useful life:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50
Land improvements	10
Equipment and vehicles	8
Technology equipment	3

Deferred Revenue

Tuition and fees received prior to June 30 for classes and programs offered in the subsequent fiscal year are reported as deferred revenue. Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as a liability of the District as compensated absences in the Statement of Net Assets. The District has accrued a liability for the amounts attributable to load banking hours within accrued liabilities. Load banking hours consist of hours worked by instructors in excess of full-time load which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. Accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires and within the constraints of the appropriate retirement systems.

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable – Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2012

Restricted net assets - nonexpendable – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets – Unrestricted net assets represent resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board, as designated, to meet current expenses for specific future purposes. When an expense is incurred that can be paid using either restricted or unrestricted funds, the District's policy is to utilize available restricted resources, followed by unrestricted resources.

State Apportionments

Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February 2013 will be recorded in the year computed by the State.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The District reports real and personal property tax revenues in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has been accrued in these financial statements to reflect the amount of property taxes receivable as of June 30, 2012.

On-Behalf Payments

GASB Statement 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments.

Classification of Revenues

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

Revenues are classified according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as: student fees, net of scholarship discounts and allowance, and Federal and most state and local grants and contracts.

Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund accounting*, and GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, such as investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues are reported, net of scholarship discounts and allowances, in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as operating revenues in the District's financial statements.

Estimates

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

New Accounting Pronouncements

During the 2011-2012 fiscal year, the following GASB pronouncements became effective:

GASB Statement No. 62 – In December 2010, the GASB issued GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*". The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements".

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

The Statement also supersedes Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*”, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

GASB Statement No. 63 – In June 2011, the GASB issued GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*”. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, “*Elements of Financial Statements*”, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

GASB Statement No. 64 – In June 2011, the GASB issued GASB Statement No. 64, “*Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53*”. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS

As provided for by the Education Code, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Riverside County Treasurer for the purpose of increasing interest earnings through County investment activities. The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. Substantially all cash held by financial institutions is entirely insured or collateralized.

Cash and equivalents, as of June 30, 2012, consist of the following:

	<u>District</u>	<u>Foundation</u>	<u>Fiduciary</u>
Cash in County Treasury	\$ 2,775,760	\$ -	\$ -
Cash held with fiscal agent	13,084,187	-	-
Cash on hand and in bank	173,144	80,022	43,233
Cash in revolving fund	9,883	-	-
	<u> </u>	<u> </u>	<u> </u>
Total cash and cash equivalents	<u>\$ 16,042,974</u>	<u>\$ 80,022</u>	<u>\$ 43,233</u>

Policies and Practices

Under provision of the District's investment policy, and in accordance with Section 53601 and 53602 of the California Government Code, the District may invest in the following types of investments: The District is authorized under California Government Code to make direct investments in local agency bonds, notes or warrants with 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 obligations.

Specifically identifiable investments are classified as to credit risk by three categories and summarized below as follows:

Category 1 – includes investments that are insured or registered or for which securities are held in the District's name and deposits insured or collateralized with securities held by the District.

Category 2 – includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name and deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the District's name.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

Investments consisted of the following at June 30, 2012:

	Category			Carrying Amount	Market Value
	1	2	3		
Money Market	\$ 34,280	\$ -	\$ -	\$ 34,280	\$ 34,280
Stock funds	475,178	-	-	444,789	475,178
Bond funds	434,337	-	-	419,866	434,337
Beneficial interest in FCCC endowment	-	174,900	-	174,900	174,900
Total	<u>\$ 943,795</u>	<u>\$ 174,900</u>	<u>\$ -</u>	<u>\$ 1,073,835</u>	<u>\$ 1,118,695</u>

Cash in County Treasury

In accordance with the Budget and Accounting Manual, the District maintains substantially all of its cash in the Riverside County Treasury as part of the common investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool, as of June 30, 2012, as provided by the pool sponsor, was \$2,779,082, with an average maturity of 1.18 years. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. 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.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Government Code Sections 16430 and 53601 allow governmental entities to invest surplus moneys in certain eligible securities. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk

Custodial credit risk 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, but all public funds are invested in bonds or governmental backed (collateralized) securities at 110% on the amount of deposit.

Concentration of Credit Risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. 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.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

NOTE 3 – RECEIVABLES

Receivables, at June 30, 2012, consist of the following and are considered collectible in full:

	Federal	State	Other	Total
General fund	\$ -	\$ 651,998	\$ 230,255	\$ 882,253
Bookstore fund	-	-	62,136	62,136
Capital outlay fund	-	-	422	422
Child development fund	5,590	43,146	19	48,755
Self insurance fund	-	-	1,591	1,591
	<u>\$ 5,590</u>	<u>\$ 695,144</u>	<u>\$ 294,423</u>	<u>\$ 995,157</u>

NOTE 4 – CAPITAL ASSETS

The following provides a summary of changes in capital assets for the year ended June 30, 2012:

Business-Type Activities	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012
Historical Cost				
Building	\$ 49,831,960	\$ -	\$ -	\$ 49,831,960
Construction in progress	23,672,571	1,697,083	-	25,369,654
Equipment	2,567,361	223,201	600,273	2,190,289
Land	926,137	-	-	926,137
Site improvements	1,286,659	-	-	1,286,659
Vehicles	145,610	-	-	145,610
Total historical cost	<u>78,430,298</u>	<u>1,920,284</u>	<u>600,273</u>	<u>79,750,309</u>
Accumulated depreciation				
Building	5,797,150	1,033,322	-	6,830,472
Equipment	1,807,738	214,366	600,273	1,421,831
Site improvements	450,463	45,498	-	495,961
Vehicles	105,558	11,783	-	117,341
Total accumulated depreciation	<u>8,160,909</u>	<u>1,304,969</u>	<u>600,273</u>	<u>8,865,605</u>
CAPITAL ASSETS, NET	<u>\$ 70,269,389</u>	<u>\$ 615,315</u>	<u>\$ -</u>	<u>\$ 70,884,704</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable, at June 30, 2012, consisted of the following:

	Business-Type Activities
Payroll	\$ 57,639
Construction	188,078
Interest	128,269
Vendor payable	409,196
	<u>\$ 783,182</u>

NOTE 6 – LONG-TERM LIABILITIES

Long-term liabilities, for the fiscal year ended June 30, 2012, are summarized as follows:

	Balance July 01, 2011	Additions	Deductions	Due in One Year	Long-term Balance
Business-Type Activities					
Other postemployment benefit obligation (OPEB)	\$ 106,241	\$ 100,641	\$ -	\$ -	\$ 206,882
Compensated absences	432,676	-	181,904	-	250,772
Supplemental employee retirement plan (SERP)	830,701	808,380	389,010	418,968	831,103
Loan payable-building	192,858	-	64,286	64,286	64,286
Certificates of participation	31,995,000	-	-	690,000	31,305,000
General obligation bonds payable	5,209,879	-	135,000	150,000	4,924,879
Accretion	-	319,536	-	-	319,536
	<u>\$ 38,767,355</u>	<u>\$ 1,228,557</u>	<u>\$ 770,200</u>	<u>\$ 1,323,254</u>	<u>\$ 37,902,458</u>

Supplemental Employee Retirement Plan (SERP)

During the year ended June 30, 2009, the District negotiated an early retirement agreement for four employees. The agreement requires five annual payments of \$78,366 through July 2013. During the year ended June 30, 2010, the District negotiated early retirement agreements for four employees. The agreement requires five annual payments of \$41,735 through July 2014. During the year ended June 30, 2011, the District negotiated early retirement agreements for eight employees. The agreement requires five annual payments of \$137,191 through July 2016. The outstanding balance owed on these agreements, at June 30, 2011, amounted to \$830,701.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

In September 2011, the District negotiated early retirement agreements for two employees. The agreement requires five annual payments of \$27,009 through October 2015. In December 2011, the District negotiated early retirement agreements for nine employees. The agreement requires five annual payments of \$104,709 through January 2016. In June 2012, the District negotiated early retirement agreements for two employees. The agreement requires five annual payments of \$29,958 through July 2016.

Loan Payable – Building

In July 6, 2007, the District financed the purchase of a building in the amount of \$450,000. This building was previously rented by the District as existing classroom space. The District will pay \$64,286 annually for seven years with zero percent interest for a total of \$450,000. The outstanding balance of the loan, at June 30, 2012, was \$128,572.

Total future maturities on loan payable – building are as follows:

Year Ended	<u>Loan payable- Building</u>
<u>June 30,</u>	
2013	\$ 64,286
2014	<u>64,286</u>
	<u>\$ 128,572</u>

CERTIFICATES OF PARTICIPATION

In September 2006, the District approved certificates of participation in the amount of \$18.6 million, to assist in providing timely cash flows during the construction period of the Physical Education Complex and the chiller plant until State reimbursements are received. The projects were completed in the Fall of 2008 and were 100% State reimbursed. The additional proceeds from the certificates of participation were used for computer upgrades for the District and other capital renovations on the Blythe and Needles campuses.

The District refinanced these Certificates of Participation in July 2008 taking advantage of lower interest rates. The District entered into these Certificates of Participation for working capital for construction projects, the Fine and Performing Arts Complex and Management Information Systems (see Note 4), due to the delay of payments for these projects approved by the State and the possibility that costs for some projects would exceed appropriated funds.

The District's intentions for budgeting for repayment of these obligations were that upon receipt of reimbursement by the State, the monies were to be set aside in an interest bearing account. Monthly payments would be made from the interest bearing account leaving the balance to continue to earn interest; it was also the District's intention to not use the funds for backfill of general funds. However, due to the current state budget crisis, decrease in investment income earned on the State reimbursements set aside, unanticipated construction cost overruns and other District cash flow needs from those amounts, the District's forecast on budgeting for repayment of these obligations is uncertain

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

The annual debt requirements on these certificates, payable as of June 30, 2012, are as follows:

Year Ended June 30,	Certificates of Participation		
	Principal	Interest	Total
2013	\$ 690,000	\$ 1,664,350	\$ 2,354,350
2014	715,000	1,636,750	2,351,750
2015	745,000	1,608,150	2,353,150
2016	785,000	1,570,900	2,355,900
2017	815,000	1,538,519	2,353,519
2018-2022	4,625,000	7,121,794	11,746,794
2023-2027	5,905,000	5,862,425	11,767,425
2028-2032	7,680,000	4,071,925	11,751,925
2033-2037	10,035,000	1,714,900	11,749,900
	<u>\$ 31,995,000</u>	<u>\$ 26,789,713</u>	<u>\$ 58,784,713</u>

GENERAL OBLIGATION BONDS PAYABLE

General obligation bonds of up to \$6,000,000 were approved by election in June 2005 and are to be used to finance real property improvements to the District' Needles campus. In October 2005, the District issued the first series on these available bonds amounting to \$2,946,254. The District took a second drawdown in September 2006, amounting to \$3,053,625. The improvements on the Needles campus were completed in the Fall of 2009. All debt repayments will be made by the County from property tax revenues.

The annual debt requirements on these bonds payable, as of June 30, 2012, are as follows:

Year Ended June 30,	Series 2005 Bonds		Series 2006 Bonds		Total
	Principal	Interest	Principal	Interest	
2013	\$ 30,000	\$ 130,944	\$ 120,000	\$ 97,050	\$ 377,994
2014	40,000	129,629	125,000	92,150	386,779
2015	45,000	127,969	140,000	86,850	399,819
2016	55,000	125,934	145,000	81,150	407,084
2017	-	124,800	155,000	75,150	354,950
2018-2022	295,000	598,950	980,000	237,475	2,111,425
2023-2027	871,254	561,246	856,083	1,286,867	3,575,450
2028-2032	995,000	126,450	222,542	1,182,458	2,526,450
	<u>\$ 2,331,254</u>	<u>\$ 1,925,922</u>	<u>\$ 2,743,625</u>	<u>\$ 3,139,150</u>	<u>\$ 10,139,951</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District's annual required contribution, for the year ended June 30, 2012, was \$127,021 and contributions made by the District during the year were \$26,380 which resulted in a net OPEB liability for 2012 of \$100,641. See Note 7 for additional information regarding the OPEB Obligation and the postemployment plan.

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits to eligible retirees in accordance with negotiated contracts with various bargaining units of the District. The District implemented the new reporting requirements of GASB Statement No. 45, *Accounting and Financial Report by Employers for Postemployment Benefits Other Than Pensions (OPEB)* prospectively for the fiscal year ended June 30, 2010.

Plan Description

The plan is a single-employer OPEB defined benefit healthcare plan administered by the Palo Verde Community College District. The plan provides post employment medical benefits to eligible retirees and their dependents.

Funding Policy

The contribution requirements are established and may be amended by the District and the District's bargaining units. The plan is currently funded on a projected pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess over a period not to exceed thirty years. The District has elected to amortize the unfunded liability over thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$	128,619
Interest on net OPEB obligation		5,312
Adjustment to annual required contribution		(6,910)
Annual OPEB cost (expense)		<u>127,021</u>
Contributions made		<u>(26,380)</u>
Increase in net OPEB obligation		100,641
Net OPEB obligation (asset), beginning of year		<u>106,241</u>
Net OPEB obligation (asset), end of year	\$	<u><u>206,882</u></u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2012

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March, 2010 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5% percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare cost increases were estimated at 4 percent annually. The UAAL is being amortized at a level dollar method. There is no actuarial value of assets because those funds have not been placed in an irrevocable trust. The District has earmarked funds held in the County Treasury for funding of the OPEB obligation but has not elected to place those assets in an irrevocable trust; therefore, there is no actuarial value of plan assets.

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description – The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

Funding Policy – Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2011-2012	\$ 315,217	100%
2010-2011	\$ 394,722	100%
2009-2010	\$ 417,182	100%

CalPERS

Plan Description – The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA 94229-2703.

Funding Policy – Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2011-12 was 10.923 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2011-2012	\$ 292,615	100%
2010-2011	\$ 334,186	100%
2009-2010	\$ 297,132	100%

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement systems (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the social security as its alternative plan.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements
June 30, 2012

NOTE 9 – FUNCTIONAL EXPENSES

The District's general fund operating expenses by functional classifications, for the year ended June 30, 2012, are as follows:

	<u>Salaries and Benefits</u>	<u>Supplies, Materials & Other Expenses & Services</u>	<u>Payments to Students</u>	<u>Total</u>
Admissions and records	\$ 396,610	\$ 17,389	\$ 1,480,843	\$ 1,894,842
Ancillary services	-	33,710	-	33,710
Auxilliary operations	69,974	164,646	96,000	330,620
General institutional support services	1,869,017	438,363	-	2,307,380
Instructional activities	4,247,148	652,170	-	4,899,318
Instructional administration	1,036,441	181,580	-	1,218,021
Instructional support services	484,822	177,928	-	662,750
Physical property and acquisitions	-	1,094,630	-	1,094,630
Planning, policy making, coordination, general support	519,853	429,902	-	949,755
Plant operations and maintenance	445,998	727,162	-	1,173,160
Student services-counseling and guidance	725,992	6,789	-	732,781
Students services-other	1,465,182	248,079	175,211	1,888,472
	<u>\$ 11,261,037</u>	<u>\$ 4,172,348</u>	<u>\$ 1,752,054</u>	17,185,439
Depreciation expense				<u>1,304,969</u>
TOTAL				<u>\$ 18,490,408</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards and Grants

The District has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditures disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Litigation

The District is currently involved in claims relating to an employee matter and various construction claims on the Fine and Performing Arts Project, and intends to vigorously contest these claims. While the ultimate liability, if any, arising from these claims cannot be predicted with certainty, the District believes that the resolution of these matters will not likely have a material effect on the District's financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District's risk management activities are recorded in the General Fund. The District participates in various public entity risk pools (JPAs) for its health and welfare benefits, workers' compensations benefits, and property/liability insurance. Refer to Note 12 for additional information regarding the JPAs.

NOTE 12 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The Palo Verde Community College District participates in five joint ventures under joint powers agreements (JPAs): Community Colleges of Riverside County Self Insurance Program for Employees (CCRC SIPE), Schools Excess Liability Fund (SELF), Riverside Schools Insurance Authority (RSIA), Riverside County Employer/Employee Partnership for Benefits Plan (REEP) and Riverside Schools Risk Management Association (RSRMA). The relationships between the District and JPA's are such that the JPA's are not a component unit of the Palo Verde Community College District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

NOTE 13 – TRANS DEBT

On April 27, 2011 the District entered into another TRANS debt in the amount of \$1,745,000 with a premium of \$18,811, issuance costs of (\$12,182) and underwriter's discount of (\$10,542) for a total of \$1,741,087 with an interest rate of 2%, maturing August 15 and November 15, 2011. The funds were provided by the County of Riverside to provide additional cash flows during the year July 1, 2011 through June 30, 2012. The TRANS debt outstanding at June 30, 2011, in the amount of \$1,741,087, was paid in full in April 2012.

NOTE 14 - SUBSEQUENT EVENTS

The District has evaluated all potential subsequent events as of December 31, 2012, when the financial statements were authorized and available to be issued. Other than those identified in Note 6 to the financial statements, no other subsequent events or transactions were identified after June 30, 2012 or as of December 31, 2012 that require additional disclosure to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Postemployment Healthcare Benefits Funding Progress
For the Fiscal Year Ended June 30, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funding Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
February 19, 2007	\$ -	\$ 519,185	\$ 519,185	0%	\$ 8,880,000	5.85%
March 1, 2010	\$ -	\$ 926,335	\$ 926,335	0.00%	\$ 9,223,000	10.04%

See the accompanying note to the required supplementary information.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Employer Contributions
For the Fiscal Year Ended June 30, 2012

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 128,619	109.00%	\$ 40,567
2011	\$ 128,619	54.00%	\$ 106,241
2012	\$ 127,021	20.77%	\$ 206,882

See the accompanying note to the required supplementary information.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Note to Required Supplementary Information
June 30, 2012

NOTE 1 – PURPOSE OF SCHEDULE

Schedule of Postemployment Healthcare Benefits Funding Progress

This schedule is prepared to show information for the most recent actuarial valuation and in future years, the information from the three most recent actuarial valuations in accordance with Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

Schedule of Employer Contributions

This schedule is prepared in accordance with Statement No. 43 of the Governmental Accounting Standards Board, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The schedule is intended to show trends about the percentage of the annual required contribution made to the plan.

SUPPLEMENTARY INFORMATION

PALO VERDE COMMUNITY COLLEGE DISTRICT

History and Organization
June 30, 2012

ORGANIZATION

The Palo Verde Community College was established in 1947 and became a separate district in 1973. The District is located in the eastern portion of Riverside County. The District annexed the City of Needles during 1999. There were no other changes to the boundaries of the District during the year. The District operates a campus in Blythe, California and a campus in Needles, California. The District relocated to its newly constructed campus in Blythe in August, 2001.

The District provides the first two years of instruction transferable to accredited four-year colleges and universities, as well as vocational and technical education.

BOARD OF TRUSTEES

The District is governed by a Board of Trustees, consisting of five members, who are elected to staggered four-year terms. The members and officers of the Board of Trustees, as of June 30, 2012, were as follows:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Edmundo Gonzales	President	2012
Millie Rodriguez	Vice-President	2012
Jerry Lewis	Clerk of the Board	2014
Lincoln Edmond	Trustee	2012
Ted Arneson	Trustee	2014
Sam Burton	Trustee	2012
George Thomas	Trustee	2014
Frannie Gregory	Student Trustee	2012

DISTRICT ADMINISTRATION

Denise Whittaker	President
Russi Egan	Acting Chief Business Officer/Fiscal Services Manager
Kay Ragan	Interim Vice-President of Student Services
Lisa Holmes	Instructional Services Manager

See the accompanying note to the supplementary information.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U. S. Dept. of Education:		
Student Financial Aid Cluster [1]:		
Pell	84.007	\$ 1,470,115
SEOG	84.032	24,169
Federal Workstudy	84.063	12,889
Developing a Virtual Campus through Assisted Distance Education Programs and Services	84.031A	151,489
Disabled Student Support Services TRIO	84.042A	<u>290,772</u>
	Total	1,949,434
U.S. Department of Agriculture		
Passed through California Department of Education		
Child Care Food Program	10.558	<u>35,135</u>
	Total	<u>35,135</u>
	Total Federal Expenditures	\$ <u>1,984,569</u>

[1]: Major Program

See the accompanying note to the supplementary information.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of State Financial Assistance – Grants
For the Fiscal Year Ended June 30, 2012

Program Name	Program Revenues			Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income		
Active minds	\$ 7,889	\$ -	\$ -	\$ 7,889	\$ 7,889
Basic Skills & Initiative	90,000	-	19,750	70,250	70,250
California Grants	73,572	-	2,717	70,855	70,855
California Work Opportunity & Responsibility to Kids	115,886	-	-	115,886	115,886
Cooperative Agencies & Resources for Education	38,383	-	-	38,383	38,383
Disabled Students Programs & Services	137,265	-	-	137,265	137,265
Equal Employment Opportunity	3,725	-	-	3,725	3,725
Extended Opportunity Programs & Services	270,691	-	-	270,691	270,691
Green Jobs Grant	140,746	-	5,553	135,193	135,193
Matriculation-Credit	158,701	-	-	158,701	158,701
Matriculation-Non Credit	19,473	-	-	19,473	19,473
Solar Energy Generation Project	29,800	2,958	-	32,758	32,758
Strengthening Career Technical Education	45,000	-	-	45,000	45,000
Student Financial Aid Administration	186,224	-	-	186,224	186,224
TANF	24,796	-	-	24,796	24,796
VATEA	96,319	12,259	-	108,578	108,578
	<u>\$ 1,438,470</u>	<u>\$ 15,217</u>	<u>\$ 5,553</u>	<u>\$ 1,425,667</u>	<u>\$ 1,425,667</u>

See the accompanying note to the supplementary information.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Workload Measure(s) for State General Apportionment
 Annual (Actual) Attendance
 For the Fiscal Year Ended June 30, 2012

	<u>Reported Data</u>
A. Summer Intersession (Summer 2011)	
1. Noncredit	2
2. Credit	-
B. Summer Intersession (Summer 2012 - Prior to July 1, 2012)	
1. Noncredit	-
2. Credit	8
C. Primary Terms (Exclusive of Summer Intersession)	
1. Census Procedure Courses	
(a) Weekly Census Contact Hours	531
(b) Daily Census Contact Hours	1
2. Actual Hours of Attendance	
(a) Noncredit	6
(b) Credit	302
3. Alternative Attendance Accounting Procedure	
(a) Weekly Census Contact Hours	532
(b) Daily Census Contact Hours	1
(c) Noncredit Independent Study/Distance Education Courses	-
	<hr/>
D. Total FTES	<hr/> 1,383 <hr/>
Supplemental Information (subset of above information)	
E. In-Service Training Courses	300
H. Basic Skills Courses & Immigrant Education	
1. Noncredit	2
2. Credit	165

See the accompanying note to supplementary information.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report with Audited Fund Balances
 For the Fiscal Year Ended June 30, 2012

	General Fund	Bookstore Fund	Trust Funds
FUND BALANCE			
June 30, 2012, Annual Financial & Budget Report (Form CCFS-311) Fund Balances	\$ 1,035,611	\$ 286,041	\$ -
Adjustments and reclassifications increasing/ (decreasing) fund balance:			
Cash	-	173	43,233
Accounts receivable	17,068	-	-
Accounts payable	(91,191)	-	-
Prior period adjustments	140,543	-	-
Net adjustments & reclassifications	66,420	173	43,233
Audited financial statements fund balance	<u>\$ 1,102,031</u>	<u>\$ 286,214</u>	<u>\$ 43,233</u>

See the accompanying note to supplementary information

PALO VERDE COMMUNITY COLLEGE DISTRICT

Note to Supplementary Information
June 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES

History and Organization

This schedule provides information about the District, members of the governing board, and members of the administration.

Schedules of Expenditures of Federal Awards and State Financial Assistance

The audit of Palo Verde Community College District, for the year ended June 30, 2012, was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the District on the modified accrual basis of accounting.

Schedule of Workload Measures for State General Apportionment

This schedule represents the basis of apportionment of the District's annual source of funding for many of its programs.

Reconciliation of Annual Financial and Budget Report with Audited Fund Balances

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Form CCFS-311.

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***

The Board of Trustees
Palo Verde Community College District
Blythe, California

We have audited the financial statements of the business-type activities that comprise the basic financial statements of Palo Verde Community College District (the "District"), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 31, 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

In planning and performing our audit, we considered the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiencies, described as Findings 2012-1 and 2012-2, in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The Board of Trustees
Palo Verde Community College District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

The District's responses to the findings are included in the accompanying schedule of findings and questioned costs. However, we did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the Governing Board, the California Department of Finance, the State Chancellor's Office, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 31, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees
Palo Verde Community College District
Blythe, California

Compliance

We have audited the compliance of Palo Verde Community College District (the "District") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Palo Verde Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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

The Board of Trustees
Palo Verde Community College District

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 combination of deficiencies, in internal control 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness, as defined above.

This report is intended solely for the information and use of management, the audit committee, the Governing Board, the California Department of Finance, the State Chancellor's Office, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 31, 2012

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

The Board of Trustees
Palo Verde Community College District
Blythe, California

We have audited the financial statements of the business-type activities of Palo Verde Community College District, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 31, 2012.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with the Chancellor's Office's *California Community Colleges Contracted District Audit Manual (CDAM)*. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination:

General Directives

Management Information System Implementation:
– State General Apportionment Required Data Elements

Administration

Open Enrollment

Minimum Conditions
– Standards of Scholarship

Student Fees
– Instructional Materials and Health Fees

Fiscal Operations:
– Salaries of Classroom Instructors (50 Percent Law)
– Gann Limit Calculation

Apportionments:
– Residency Determination for Credit Courses
– Students Actively Enrolled
– Concurrent Enrollment of K-12 Students in Community College Credit Courses
– Apportionment for Instructional Service Agreements / Contracts
– Enrollment Fees

The Board of Trustees
Palo Verde Community College District

Student Services

Matriculation:

- Uses of Matriculation Funds

CalWORKS

- Use of State and Federal TANF Funding

Special Programs

Extended Opportunity Programs and Services (EOPS):

- Allocation of Costs

Disabled Student Program and Services (DSPS):

- Allocation of Costs

Facilities

- Scheduled Maintenance Programs

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, Palo Verde Community College District complied with the compliance requirements for the state programs listed and tested above, as shown in the Findings and Recommendations Section on the Schedule of State Awards Findings and Questioned Costs. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Chancellor's Office's *California Community Colleges Contracted District Audit Manual (CDAM)* and which is described in the accompanying Schedule of Audit Findings and Questioned Costs as item 2012-3.

The District's response to the State compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, the Governing Board, management, the California Department of Finance, the State Chancellor's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 31, 2012

FINDINGS AND RECOMMENDATIONS

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2012

SECTION 1 – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007,84.032,84.063</u>	<u>Student Financial Aid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2012

SECTION 2 – FINANCIAL STATEMENT FINDINGS

2012-1 PREPARATION OF FINANCIAL STATEMENTS

Specific Requirement Auditing and accounting standards state that an auditor cannot be a component of the District's internal control system. It states that the District is responsible for the preparation, review and approval of its financial statements and related footnote disclosures in conformity with Government Auditing Standards, specifically GASB #35.

Condition The District's personnel could not prepare full disclosure financial statements. Under the standards, this is defined as an inadequate design of the District's internal controls over the financial statements being audited.

Effect The District can reach the point where they cannot accurately prepare, monitor, and report annual financial activity without auditor intervention.

Cause Reductions in funding have caused the District to lack the additional personnel in house to prepare the financial statements.

Questioned Costs None

Recommendation We recommend that the District continue to evaluate the benefits of preparing, reviewing and approving their own full disclosure financial statements in conformity with Government Auditing Standards at year end against the cost of doing so, internally or through an independent CPA.

District Response Management agrees with this finding and has evaluated the cost benefits of preparing, reviewing and approving their own full disclosure financial statements and has opted to utilize the auditor to prepare full disclosure financial statements in conformity with GASB #35.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2012

SECTION 2 – FINANCIAL STATEMENT FINDINGS, Continued

2012-2 CCFS-311

Specific Requirement The District is required to report accurate records of the results of their financial activities and their financial position for each fiscal year.

Condition During our audit, we made adjustments to the CCFS-311. These adjustments were made to accurately report cash, accounts receivable, and accounts payable.

Effect Amounts reflected on the CCFS-311 can be misunderstood if balances are not accurately reported.

Cause We believe management did not effectively review the CCFS-311 prior to its submission.

Questioned Costs None

Recommendation We recommend that the District closely review all financial data included in the CCFS-311 report and make the necessary adjustments at year end before submitting for the audit and to the required agencies.

District Response Management agrees with this finding and has implemented procedures to review all data provided to ensure that the correct amounts are include in the CCFS-311 report before submission to the corresponding agencies.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2012

SECTION 3 – FEDERAL AWARDS FINDINGS

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2012

SECTION 4 – STATE AWARDS FINDINGS

2012-3 50 PERCENT LAW

Specific Requirement California Education Code Section 84362, commonly known as the 50 Percent Law, requires that a minimum of 50 percent of the District’s Current Expenses of Education (CEE) be expended during each fiscal year for “Salaries of Classroom Instructors”.

Condition During the course of the audit, it was noted that the District’s salaries of classroom instructors was only 46.87% of the District’s current expense of education.

Effect The inability to expend 50% of the District’s Current Expenses of Education for the salaries of classroom instructors.

Cause A serious hardship as defined in CCR, Title 5, Section 59204 ©, in the form of unanticipated, unbudgeted and necessary expenditures.

Questioned Costs None

Recommendation We recommend that the District develop a plan of action to meet the requirements of Section 84362 of the Education Code requiring salaries of classroom instructors to meet or exceed 50 percent of the District’s current education expense.

District Response Management agrees with this finding and is implementing the procedures necessary to meet the requirements of the State. The District has also requested an exemption from Section 84362 of the Education Code. All requirements of the Education Code for filing an application for exemption have been met and the financial impact of this finding to the District is unknown at this time. This is the second year the District has filed for an exemption from the 50 Percent Law.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Status of Prior Year Findings and Questioned Costs
June 30, 2012

FINANCIAL STATEMENT FINDINGS

2011-7 PREPARATION OF FINANCIAL STATEMENTS

Finding Auditing and accounting standards state that an auditor cannot be a component of the District's internal control system. It states that the District is responsible for the preparation, review and approval of its financial statements and related footnote disclosures in conformity with Government Auditing Standards, specifically GASB #35. The District's personnel could not prepare full disclosure financial statements. Under the Standards, this is defined as an inadequate design of the District's internal controls over the financial statements being audited.

Recommendation We recommend that the District continue to evaluate the benefits of preparing, reviewing and approving their own full disclosure financial statements in conformity with Government Auditing Standards at year end against the cost of doing so, internally or through an independent CPA.

Current Status Not Implemented. See Finding 2012-1.

2011-8 CCFS-311

Finding During our audit, we made a few adjustments to the CCFS-311 report for a combined net increase of approximately \$223,000 on the Statement of Revenues, Expenses and Changes in Net Assets. The adjustments consisted primarily of recording additional State capital reimbursements of \$115,088, recording additional capital outlay expense previously included in prepaid expenses of \$32,100, reconciling final cash with fiscal agent activity for investment activity of \$14,772, reducing accounts payable and utility expense for unsubstantiated amounts of \$149,368 and adjusting bookstore inventory by \$14,268 to the proper balances on hand.

Recommendation We recommend that the District closely review all financial data included in the CCFS-311 report and make the necessary adjustments at yearend before submitting for the audit and to the required agencies.

Current Status Not Implemented. See Finding 2012-2.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Status of Prior Year Findings and Questioned Costs
June 30, 2012

FEDERAL AWARDS FINDINGS

There were no federal award findings or questioned costs in 2010-11.

STATE AWARDS FINDINGS

2011-1 50 PERCENT LAW

Finding The California Education Code Section 84362, commonly known as the 50 Percent Law, requires that a minimum of 50 percent of the District's Current Expenses of Education (CEE) be expended during each fiscal year for "Salaries of Classroom Instructors". During the course of the audit, it was noted that the District's salaries of classroom instructors was only 43.28% of the District's current expense of education.

Recommendation We recommend that the District develop a plan of action to meet the requirements of Section 84362 of the Education Code requiring salaries of classroom instructors to meet or exceed 50 percent of the District's current education expense.

Current Status Not Implemented. See Finding 2012-3

2011-2 GANN LIMIT

Finding Article XIII-B of the California Constitution and Chapter 1205, Statutes of 1980, require each community college to compute its annual appropriation limit (GANN). Each limit is adjusted annually for changes in price index, population and, if applicable, other factors. CCR Section 58303 indicates that the District's adopted budget shall also include the appropriations limit and the total annual appropriations subject to limitations. It was noted during our audit that management's calculation of the appropriation limit did not agree with the amounts reported to the Chancellor's office. The amount reported to the Chancellor's office was correct, however. Furthermore, it was noted that management was not consistent in the way the State Subventions and Local Property Tax appropriations subject to limit were calculated.

Recommendation We recommend that the District review the GANN limit worksheet before and after entering on the CCFS-311 report to ensure all data is accurate and consistent with District calculations before submitting to the Chancellor's office.

Current Status Implemented

PALO VERDE COMMUNITY COLLEGE DISTRICT

Status of Prior Year Findings and Questioned Costs
June 30, 2012

STATE AWARDS FINDINGS, Continued

2011-3 50% LIMIT

Finding Per Finding #11-1 Section 84362 of the Education Code requires that the District's salaries of classroom instructors is equal to or exceed 50 percent of the District's current expense of education. One requirement of this Code is that all instructors whose salaries are included in salaries of classroom instructors met certain minimum qualifications in their area of expertise at the time they were hired. During our audit it was noted that one out of ten instructors tested did not have any documentation in their personnel file demonstrating that they met certain minimum qualifications. Through review of their resume, degree and work history it was obvious they had certain qualifications; however, it was not clear if those qualifications were necessary for their area of expertise.

Recommendation We recommend that the District review personnel files for all instructors whose salaries are included in salaries of classroom instructors and ensure that they document each instructor has met certain minimum qualifications in their area of expertise.

Current Status Implemented.

2011-4 INSTRUCTIONAL SERVICE AGREEMENTS

Finding Section 84752 of the Education Code requires that the District's arrangements, commonly referred to as "instructional service agreements" (ISA), with public and private entities also meet the 50 percent law in as it relates to instructors. The law requires instructors under ISA to also meet certain minimum qualifications in their area of expertise, they must report to the Dean of Instruction and their class curriculum must meet the District approved education program. During our audit it was noted that two out of ten instructors tested did not have any documentation in their personnel file demonstrating that they met certain minimum qualifications. Through review of their resumes, degree, and work history it was obvious they had certain qualifications; however, it was not clear if those qualifications were necessary for their area of expertise. Also, three instructors out of the ten tested did not have any documentation on file demonstrating that their curriculum met District approved education programs and it was not clear if these instructors were required to report directly to the Dean of Instruction.

Recommendation We recommend that the District review personnel files for all instructors whose salaries are included in salaries of classroom instructors and ensure that they document each instructor has met certain minimum qualifications in their area of expertise and that they are required to report directly to the Dean of Instruction. We also recommend that the Instructors curriculum be matched against District approved education programs.

Current Status Implemented

PALO VERDE COMMUNITY COLLEGE DISTRICT

Status of Prior Year Findings and Questioned Costs
June 30, 2012

STATE AWARDS FINDINGS, Continued

2011-5 CONCURRENT ENROLLMENT

Finding Section 76002(a) of the Education Code specifies that for purposes of receiving State apportionments, a community college district may include high school pupils who attend a community college within the District pursuant to Sections 48800 and 76001 in the District's report of full-time equivalent students (FTES). During our testing of the State Compliance Requirements as it relates to concurrent enrollment of K-12 students in community college credit courses we noted that one student's file was not completed as required by Section 76002 of the Education Code. At the time the student's application was reviewed and approved, the student was underage requiring a parental approval signature for which none was provided. A second form containing a parental signature was on file and therefore the District is still in compliance with the reporting requirements as it pertains to its report of full-time equivalent students.

Recommendation We recommend that the District review all K-12 special student applications for concurrent enrollment and ensure that the necessary information is completed before approving the student's application and giving them access to register for classes.

Current Status Implemented.

2011-6 AB 540

Finding Assembly Bill number AB 540 of Section 68130.5 of the California Education Code requires that a person, other than a nonimmigrant alien as defined, who has attended high school in California for 3 or more years, who has graduated from a California high school or attained the equivalent thereof, who has registered at or attends an accredited institution of higher education in California, and who, if he or she is an alien without lawful immigration status, has filed an affidavit as specified, be exempted from paying nonresident tuition at the California Community Colleges and the California State University. It was noted during our audit that although the District collects a "California Nonresident Tuition Exemption" form from students requesting exemption from nonresident tuition under AB 540, the District does not verify the information provided by the student. Furthermore, out of the ten students tested under AB 540 one application for exemption could not be located by District personnel.

Recommendation We recommend that the District implement a system to validate all information provided in the California Nonresident Tuition Exemption form in accordance with AB 540 State Law.

Current Status Implemented.