PALO VERDE COMMUNITY COLLEGE DISTRICT

County of Riverside
Blythe, California

REPORT ON AUDIT
June 30, 2013

PALO VERDE COMMUNITY COLLEGE DISTRICT

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June 30, 2013

Messner
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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the financial accompanying financial statements of the business-type activities and the fiduciary activities of Palo Verde Community College District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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The Board of Trustees
Palo Verde Community College District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Palo Verde Community College District, as of June 30, 2013, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as the management's discussion and analysis on pages 4 through 12 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 40, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, including the Schedule of Expenditures of Federal Awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Board of Trustees
Palo Verde Community College District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 30, 2013, on our consideration of Palo Verde Community College District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 30, 2013

PALO VERDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis
June 30, 2013

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, 2013.

Introduction

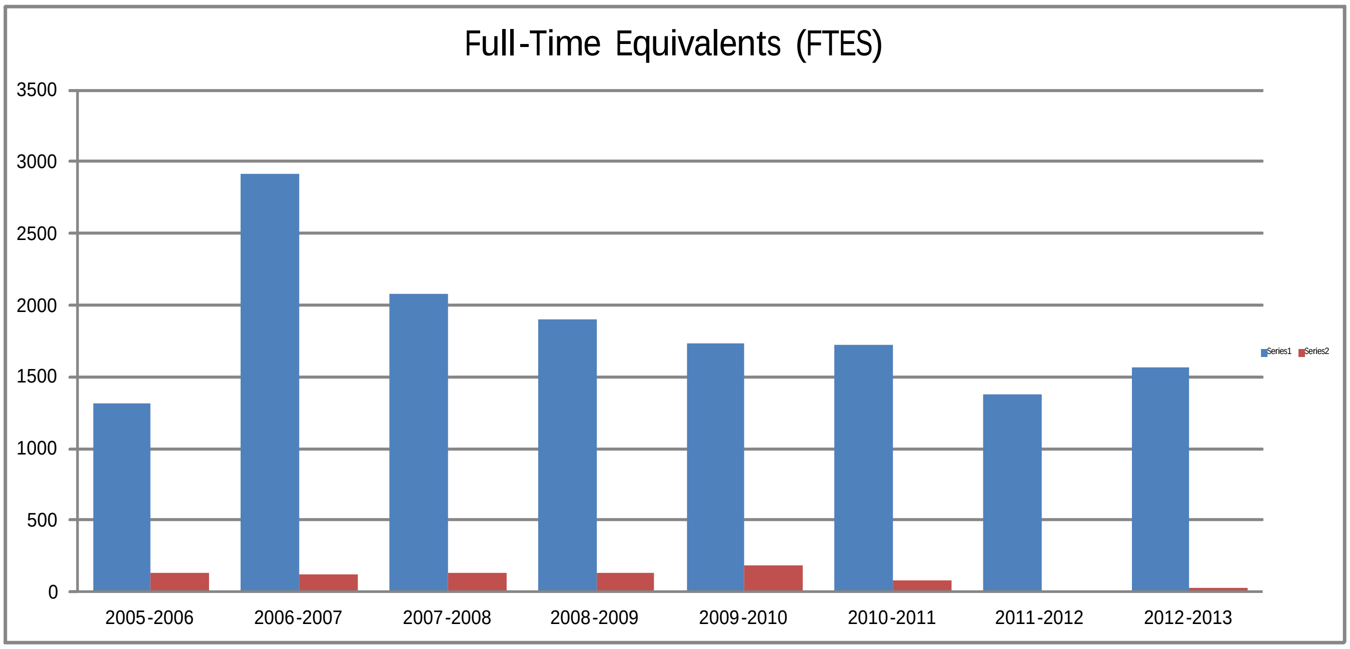
The following discussion and analysis provides an overview of the financial position and activities of the Palo Verde Community College District (the "District") for the years ended June 30, 2013 and June 30, 2012. This discussion has been prepared by management and should be read in conjunction with 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 2012-13, total full-time equivalent students increased approximately 15.55% 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:



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

Statement of Net Position

The Statement of Net Position presents the assets, liabilities and net position 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 Position presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current) and net position (assets minus liabilities).

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

The Statement of Net Position, as of June 30, 2013 and June 30, 2012, is summarized below:

	2013	2012	Net Change
ASSETS			
Current assets	$ 15,369,899	$ 17,456,780	$ (2,086,881)
Non-current assets	69,305,408	70,884,704	(1,579,296)
Total Assets	84,675,307	88,341,484	(3,666,177)
LIABILITIES			
Current liabilities	2,235,958	2,106,436	129,522
Non-current liabilities	36,677,128	37,902,458	(1,225,330)
Total Liabilities	38,913,086	40,008,894	(1,095,808)
Total Net Position	$ 45,762,221	$ 48,332,590	$ (2,570,369)

• Approximately 25% and 74% 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, 2013, the District owned capital assets of $69,305,408. The breakdown of this total net value can be found in Note 5 of the financial statements.

• Accounts payable and accrued liabilities consists of payables to vendors, accrued payroll and benefits ($945,005).

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

• Unrestricted net position totaled ($365,850).

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position 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 revenue 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 Position, for the fiscal years ended June 30, 2013 and June 30, 2012, are summarized below:

	2013	2012	Net Change
Revenues			
Operating revenues	$ 5,240,696	$ 3,812,089	$ 1,428,607
Non-operating revenues	10,424,514	12,751,010	(2,326,496)
Other revenues	1,380,799	2,550,591	(1,169,792)
Total Revenues	17,046,009	19,113,690	(2,067,681)
Expenses			
Operating expenses	15,719,859	17,185,439	1,465,580
Non-operating expenses	1,972,381	1,970,237	(2,144)
Depreciation	1,924,138	1,304,969	(619,169)
Total Expenses	19,616,378	20,460,645	844,267
Excess (deficiency)	(2,570,369)	(1,346,955)	(1,223,414)
Net Position - Beginning	48,332,590	50,054,589	(1,721,999)
Prior period adjustment	-	(375,044)	375,044
Net Position - Ending	$ 45,762,221	$ 48,332,590	$ (2,570,369)

• 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.

• Personnel costs are 53% 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 12 of the financial statements.

Operating Expenses (by natural classification) – object:

	2013	2012	Net Change
Salaries	$ 6,931,830	$ 7,392,840	$ 461,010
Benefits	2,325,678	3,868,197	1,542,519
Payments to students	2,384,502	1,752,054	(632,448)
Supplies, materials, and other expenses	3,799,464	3,790,504	(8,960)
Utilities	278,385	381,844	103,459
Depreciation	1,924,138	1,304,969	(619,169)
Total Operating Expenses	$ 17,643,997	$ 18,490,408	$ 846,411

• 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

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 Position.

The Statement of Cash Flows, for the years ended June 30, 2013 and June 30, 2012, are summarized below:

	2013	2012	Net Change
Net cash provided by (used in)			
Operating activities	$ (10,513,057)	$ (13,224,696)	$ 2,711,639
Non-capital financing activities	9,138,642	14,770,386	(5,631,744)
Capital financing activities	(1,884,317)	(2,932,905)	1,048,588
Investing activities	52,578	81,199	(28,621)
Net decrease in cash and cash equivalents	(3,206,154)	(1,306,016)	(1,900,138)
Cash balance, beginning of year	16,042,975	17,348,991	(1,306,016)
Cash balance, end of year	$ 12,836,821	$ 16,042,975	$ (3,206,154)

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.

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 Position and Changes in Fiduciary Net Position. 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:

	2013	2012	Net Change
Land and construction in progress	$ 1,010,614	$ 26,295,791	$ (25,285,177)
Buildings and equipment	79,084,537	53,454,518	25,630,019
Accumulated depreciation	(10,789,743)	(8,865,605)	(1,924,138)
Total Capital Assets	$ 69,305,408	$ 70,884,704	$ (1,579,296)

Debt

At June 30, 2013, the District had $37,968,082 in long-term debt. A comparison of long-term debt is summarized below:

	2013	2012	Net Change
Bonds payable	$ 5,322,808	$ 5,394,415	(71,607)
Certificates of participation	31,305,000	31,995,000	(690,000)
Loan payable-building	64,286	128,572	(64,286)
SERP	819,343	1,250,071	(430,728)
OPEB	145,830	206,882	(61,052)
Compensated absences	310,815	250,772	60,043
Total Long-term Liabilities	$ 37,968,082	$ 39,225,712	$ (1,257,630)

Economic Factors

The economic position of Palo Verde Community College is closely tied to that of the State of California. As the economy improves, historically, community colleges tend to experience a decrease in enrollment.

Palo Verde Community College saw an increase in enrollment over the previous year despite the slight improvement in the state economy.

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, 2013, was 11.417% which is an increase from the previous year of 0.49%.

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 2013-14 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 has experienced extensive changes to administration which began in 2011-12. A new Superintendent/ President was selected and began work with the college on July 1, 2013. 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 2014.

Management will continue 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 known 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.

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 Position
June 30, 2013

ASSETS		
Current assets:		
Cash and cash equivalents	$	12,836,821
Accounts receivable		2,283,610
Prepaid expenses		249,468
Total current assets		15,369,899
Non-Current assets:		
Fixed assets, net		69,305,408
Total non-current assets		69,305,408
TOTAL ASSETS	$	84,675,307
LIABILITIES		
Current liabilities:		
Current liabilities	$	945,004
Current portion of long-term debt		1,290,954
Total current liabilities		2,235,958
Non-Current Liabilities		36,677,128
TOTAL LIABILITIES		38,913,086
NET POSITION		
Invested in capital assets		32,901,656
Restricted for:		
Capital projects		12,194,512
Debt service		413,412
Other activities		618,491
Unrestricted		(365,850)
TOTAL NET POSITION		45,762,221
TOTAL LIABILITIES AND NET POSITION	$	84,675,307

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

OPERATING REVENUES	
Tuition and fees	$ 1,175,195
Less: Scholarship discounts and allowances	(878,552)
Net Tuition amd Fees	296,643
Grants and contracts	
Federal	2,682,265
State	1,277,749
Local	984,039
Total Operating Reveunes	5,240,696
OPERATING EXPENSE	
Salaries	6,931,830
Benefits	2,325,678
Payments to students	2,384,502
Supplies, materials, and other expenses	3,799,464
Utilities	278,385
Depreciation	1,924,138
Total Operating Expenses	17,643,997
OPERATING INCOME/(LOSS)	(12,403,301)

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenses and Changes in Net Position, Continued
For the Fiscal Year Ended June 30, 2013

NON-OPERATING REVENUES/(EXPENSES)	
State apportionments, non-capital	8,573,629
Local property taxes	1,518,895
State taxes and other revenues	282,063
Investment income, net	49,927
Interest expense	(1,972,381)
Total non-operating revenues	8,452,133
Income Before Other Revenues, Expenses, Gains or Losses	(3,951,168)
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	
State apportionments, capital	1,373,099
Grants and contracts, capital	7,700
Total Other Revenues, Expenses, Gains or Losses	1,380,799
CHANGE IN NET POSITION	(2,570,369)
NET POSITION	
Net Position - Beginning	48,332,590
Net Position - Ending	$ 45,762,221

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Cash Flows from Operating Activities	
Tuition and fees	$ 179,736
Federal grants and contracts	2,682,015
State grants and contracts	1,277,749
Local grants and contracts	984,039
Payments to suppliers	(3,410,950)
Payments for utilities	(278,385)
Payments to/on-behalf of employees	(9,624,755)
Payments to/on-behalf of students	(2,384,502)
Auxiliary enterprise sales and charges	61,996
Net cash provided by (used in) operating activities	(10,513,057)
Cash Flows from Non-capital Financing Activities	
State apportionments and receipts	7,271,782
Property taxes	1,551,506
State taxes and other revenues	315,354
Net cash provided by (used in) by non-capital financing activities	9,138,642
Cash Flows from Capital Financing Activities	
State apportionments for capital purposes	1,373,099
Local revenue, capital projects	7,700
Principal paid on capital debt	(904,286)
Interest paid on capital debt	(2,015,988)
Purchases of capital assets	(344,842)
Net cash provided by (used in) capital financing activities	(1,884,317)
Cash Flows from Investing Activities	
Investment income	52,578
Net cash provided by (used in) investing activities	52,578
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,206,154)
CASH AND CASH EQUIVALENTS	
Beginning of year	16,042,975
End of year	$ 12,836,821

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statement of Cash Flows, Continued
For the Fiscal Year Ended June 30, 2013

Reconciliation of operating loss to cash used in operating activities

Operating loss	$ (12,403,301)
Depreciation and amortization	1,924,138
(Increase) decrease in accounts receivable	(55,161)
(Increase) decrease in prepaid expenses	169,180
Increase (decrease) in accounts payable	161,720
Increase (decrease) in supplemental early retirement incentive	(430,728)
Increase (decrease) in other liabilities	121,095
Net cash used in operating activities	$ (10,513,057)

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statements of Fiduciary Net Position
June 30, 2013

	ASB Trust Fund	Scholarship and Loan Trust Fund
ASSETS		
Cash and cash equivalents	$ 5,105	$ 54,917
TOTAL ASSETS	$ 5,105	$ 54,917
LIABILITIES		
Due to student groups	$ 5,105	$ 54,917
LIABILITIES AND NET POSITION	$ 5,105	$ 54,917

See the accompanying notes to the financial statements.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Statements of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2013

	ASB Trust Fund	Scholarship and Loan Trust Fund
ADDITIONS		
Other local revenues	$ 4,043	$ 48,552
Total Additions	4,043	48,552
DEDUCTIONS		
Supplies and materials and other operating expenses and services	1,749	34,057
CHANGE IN NET POSITION	2,294	14,495
Net Position - Beginning	2,811	40,422
Net Position - Ending	$ 5,105	$ 54,917

See the accompanying notes to the financial statements.

NOTE 1 – ORGANIZATION

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. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, capital project funds, and proprietary funds, but these budgets are managed at the department level. While the District is a political subdivision of the State, it is legally separate and is independent of other State and local governments, and is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The basic criteria for including a component unit are: (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, the District.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office Budget and Accounting Manual. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlement are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are incurred to provide instructional services including support costs and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred; when goods are received or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. This District has elected to not apply FASB pronouncements after that date.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities, as amended by GASB Statements No. 37 and No. 38. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
    - Statements of Net Position – Primary Government
    - Statements of Revenues, Expenses, and Changes in Net Position – Primary Government
    - Statements of Cash Flows – Primary Government
    - Financial Statements for the Fiduciary Funds including:
        - Statements of Fiduciary Net Position
        - Statements of Changes in Fiduciary Net Position
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, investments held at June 30, 2013 are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets are classified on the Statement of Net Position because their use is limited by enabling legislation, applicable bond covenants, and other laws of other governments. Also, resources have been set aside to satisfy certain requirements of the bonded debt issuance and to fund certain capital asset projects.

Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable 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.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30.

Inventories

Inventories consist primarily of cafeteria food and supplies held for resale to the students and faculty of the college. Inventories are stated at cost, utilizing the weighted average method. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

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.

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

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

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

Deferred Issuance Costs, Premiums, and Discounts

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability of the District as compensated absences in the Statement of Net Position. 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.

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.

Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, and OPEB obligations with maturities greater than one year.

Net Position

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represents the difference between assets and liabilities. The net position is classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following categories:

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 position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Unrestricted – Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed.

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 January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when the County notifies the District of the availability of the revenues. A receivable has been accrued in these financial statements to reflect the amount of property taxes receivable as of June 30, 2013.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenues and certain other revenues are reported, net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods, and the 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. To the extent that fee waivers have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Program

The District participates in federally funded Pell Grants, SEOG grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is reported as other revenue. The amount reported as other revenue represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, Audits *of States, Local Governments, and Non-Profit Organizations* and the related *Compliance Supplement*.

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 issued by the California Department of Education instructed 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.

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.

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.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated within the primary government funds during the consolidation process in the entity-wide financial statements.

New Accounting Pronouncements

During the 2012-2013 fiscal year, the following GASB pronouncements became effective:

GASB Statement No. 65 – In March 2012, the GASB issued GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of the Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* , requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession agreement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in the financial statement presentations.

The provisions of GASB Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 66 – In March, 2012, the GASB issued GASB Statement No. 66, "*Technical Corrections 2012 – An Amendment of GASB Statements No. 10 and No. 62*". The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions"* and No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"*.

The provisions of GASB Statement No. 66 are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 67 – In June, 2012, the GASB issued GASB Statement No. 67, "*Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*". The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans"*, and No. 50, "*Pension Disclosures",* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

GASB Statement No. 67 is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

GASB Statement No. 68 – In June, 2012, the GASB issued GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*". The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

GASB Statement No. 68 is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

GASB Statement No. 69 – In January, 2013, the GASB issued GASB Statement No. 69, "*Government Combinations and Disposals of Government Operations*". This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term "*government combinations"* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The requirements of GASB Statement No. 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

GASB Statement No. 70 – In April, 2013, the GASB issued GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*". Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The provisions of GASB Statement No. 70 are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.

NOTE 3 – DEPOSITS AND INVESTMENTS

Summary of Deposits 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, 2013, consist of the following:

	District	Fiduciary
Cash in County Treasury	$ 3,197,201	$ -
Cash held with fiscal agent	9,586,154	-
Cash on hand and in bank	43,583	60,022
Cash in revolving fund	9,883	-
Total cash and cash equivalents	$ 12,836,821	$ 60,022

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.

Investment 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, 2013, as provided by the pool sponsor, was $3,187,888, with an average maturity of 1.41 years. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

General Authorizations

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

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

Interest Rate Risk

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

NOTE 4 – RECEIVABLES

Receivables, at June 30, 2013, consist of the following and are considered collectible in full:

	Federal	State	Other	Total
General fund	$ -	$ 1,930,734	$ 344,861	$ 2,275,595
Bookstore fund	-	-	267	267
Capital outlay fund	-	-	1,128	1,128
Child development fund	5,840	354	206	6,400
Self insurance fund	-	-	220	220
	$ 5,840	$ 1,931,088	$ 346,682	$ 2,283,610

NOTE 5 – CAPITAL ASSETS

The following provides a summary of changes in capital assets for the year ended June 30, 2013:

Business-Type Activities	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013
Historical Cost				
Building	$ 49,831,960	$ 25,285,177	$ -	$ 75,117,137
Construction in progress	25,369,654	-	25,285,177	84,477
Equipment	2,190,289	344,842	-	2,535,131
Land	926,137	-	-	926,137
Site improvements	1,286,659	-	-	1,286,659
Vehicles	145,610	-	-	145,610
Total historical cost	79,750,309	25,630,019	25,285,177	80,095,151
Accumulated depreciation				
Building	6,830,472	1,613,941	-	8,444,413
Equipment	1,421,831	252,915	-	1,674,746
Site improvements	495,961	45,498	-	541,459
Vehicles	117,341	11,784	-	129,125
Total accumulated depreciation	8,865,605	1,924,138	-	10,789,743
CAPITAL ASSETS, NET	$ 70,884,704	$ 23,705,881	$ 25,285,177	$ 69,305,408

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable, at June 30, 2013, consisted of the following:

	Business-Type Activities
Payroll	$ 7,072
Interest	128,373
Vendor payable	809,559
	$ 945,004

NOTE 7 – SHORT-TERM BORROWING

In July, 2012, the District issued $1,255,000 of Tax and Revenue Anticipation Notes. The yield on the notes is .45 percent. The notes were issued to supplement cash flows. The terms require the District to set aside, in the County Treasury, 100 percent of the principal and interest due on the notes at maturity. The notes matured and were fully repaid on April 30, 2013.

NOTE 8 – INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity, within the governmental funds and fiduciary funds, have been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process.

In March, 2013, the Capital Outlay fund lent the General fund $5,000,000 to supplement cash flow. At June 30, 2013, the unpaid balance due the Capital Outlay fund from the General Fund was $1,200,000.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process.

NOTE 9 – LONG-TERM OBLIGATIONS

Long-term obligations, for the fiscal year ended June 30, 2013, are summarized as follows:

	Balance July 01, 2012	Additions	Deductions	Due in One Year	Long-term Balance
Business-Type Activities					
Other postemployment benefit obligation (OPEB)	$ 206,882	$ -	$ 61,052	$ -	$ 145,830
Compensated absences	250,772	60,043	-	-	310,815
Supplemental employee retirement plan (SERP)	1,250,071	-	430,728	346,668	472,675
Loan payable-building	128,572	-	64,286	64,286	-
Certificates of participation	31,995,000	-	690,000	715,000	30,590,000
General obligation bonds payable	5,074,879	-	150,000	165,000	4,759,879
Accretion	319,536	78,393	-	-	397,929
	$ 39,225,712	$ 138,436	$ 1,396,066	$ 1,290,954	$ 36,677,128

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.

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 agreed to 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, 2013, was $64,286. Total future maturities on loan payable – building are as follows:

Year Ended June 30,	Loan payable - Building
2014	$ 64,286

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, 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.

The annual debt requirements on these certificates, payable as of June 30, 2013, are as follows:

Year Ended June 30,	Certificates of Participation Principal	Interest	Total
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	845,000	1,503,881	2,348,881
2019-2023	4,845,000	6,906,088	11,751,088
2024-2028	6,215,000	5,548,575	11,763,575
2029-2033	8,105,000	3,649,525	11,754,525
2034-2038	8,235,000	1,162,975	9,397,975
	$ 31,305,000	$ 25,125,363	$ 56,430,363

General Obligation Bonds Payable

General obligation bonds of up to $6,000,000 were approved by election in June 2005 and were 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, 2013, are as follows:

Year Ended	Series 2005 Bonds		Series 2006 Bonds		
June 30,	Principal	Interest	Principal	Interest	Total
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	26,764	163,036	155,000	75,150	419,950
2018	26,547	168,253	170,000	67,375	432,175
2019-2023	447,942	629,558	1,050,000	187,200	2,314,700
2024-2028	880,000	377,400	552,109	993,741	2,803,250
2029-2033	780,000	73,200	286,517	1,458,483	2,598,200
	$ 2,301,253	$ 1,794,979	$ 2,623,626	$ 3,042,099	$ 9,761,957

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, 2013, was $157,516 and contributions made by the District during the year were $216,568 which resulted in a net OPEB liability for 2013 of $61,052. See Note 10 for additional information regarding the OPEB Obligation and the postemployment plan.

NOTE 10 – 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)* prospective ly 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	$	160,629
Interest on net OPEB obligation		10,344
Adjustment to annual required contribution		(13,457)
Annual OPEB cost (expense)		157,516
Contributions made		(218,568)
Increase in net OPEB obligation		(61,052)
Net OPEB obligation (asset), beginning of year		206,882
Net OPEB obligation (asset), end of year	$	145,830

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2011	$ 128,619	54.00%	$ 106,241
2012	$ 127,021	20.77%	$ 206,882
2013	$ 157,516	138.76%	$ 145,830

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 April, 2013 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 11 – 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.

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 2012-13 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:

	Contribution	Percent of Required Contribution
2012-2013	$ 301,213	100%
2011-2012	$ 315,217	100%
2010-2011	$ 394,722	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 2012-13 was 11.417 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:

	Contribution	Percent of Required Contribution
2012-2013	$ 232,560	100%
2011-2012	$ 292,615	100%
2010-2011	$ 334,186	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.

NOTE 12 – FUNCTIONAL EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes in net position for the year ended June 30, 2013.

	Salaries and Benefits	Supplies, Materials & Other Expenses & Services	Utilities	Payments to Students	Depreciation	Total
Admissions and records	$ 239,881	$ 28,999	$ -	$ -	$ -	$ 268,880
Ancillary services	9,317	4,900	-	-	-	14,217
Auxilliary operations	20,795	81	-	-	-	20,876
General institutional support services	1,790,047	458,556	-	-	-	2,248,603
Instructional activities	3,768,606	837,419	-	-	-	4,606,025
Instructional administration	574,932	46,092	-	-	-	621,024
Instructional support services	347,069	238,918	-	-	-	585,987
Physical property and acquisitions	-	1,143,868	-	-	-	1,143,868
Planning, policy making, coordination, general support	478,985	248,254	-	-	-	727,239
Plant operations and maintenance	340,943	412,646	278,385	-	-	1,031,974
Student services-counseling and guidance	559,385	10,502	-	-	-	569,887
Students services-other	1,127,548	349,031	-	-	-	1,476,579
Transfers and student payments	-	20,198	-	2,384,502	-	2,404,700
Depreciation	-	-	-	-	1,924,138	1,924,138
	$ 9,257,508	$ 3,799,464	$ 278,385	$ 2,384,502	$ 1,924,138	$ 17,643,997

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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 employee matters 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.

NOTE 14 – 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 15 for additional information regarding the JPAs.

NOTE 15 – 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 (CCRCSIPE), 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 16 - SUBSEQUENT EVENTS

In August 2013, District sold property located on Spring Street in Blythe, California for $400,000.

REQUIRED SUPPLEMENTARY INFORMATION

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Other Postemployment Benefits (OPEB) Funding Progress
For the Fiscal Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
April 1, 2013	$ -	$ 1,555,904	$ 1,555,904	0.00%	$ 6,899,178	22.55%

See the accompanying note to the required supplementary information.

Schedule of Postemployment Benefits (OPEB) 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.

SUPPLEMENTARY INFORMATION

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, 2013, were as follows:

Member	Office	Term Expires
Millie Rodriguez	President	2016
George Thomas	Vice-President	2014
Ted Arneson	Clerk of the Board	2014
Jerry Lewis	Trustee	2014
Lincoln Edmond	Trustee	2016
Edmundo Gonzales	Trustee	2016
Ned Hyduke	Trustee	2016
Alex Munoz	Student Trustee	2013

DISTRICT ADMINISTRATION

Donald G. Wallace, Ph.D.	Superintendent/ President
Russi Egan	Chief Business Officer
Sharon Jones	Interim Vice-President of Instructional and Student Services

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or	CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster: **[1]**			
Federal Pell Grants	84.063		$ 1,452,540
Federal Pell Administrative	84.063		
Federal Supplement Education Opportunity (FSEOG)	84.007		27,250
Federal Work Study Progrm (FWS)	84.033		23,782
Subtotal Student Financial Assistance Cluster			1,503,572
TRIO Cluster:			
Student Support Services Program	84.042A		124,833
HIGHER EDUCATION ACT			
Title V, Part A Distance Education Programs and Services	84.031A		413,133
CAREER AND TECHNICAL EDUCATIN ACT			
Passed through from the California Community Colleges Chancellor's Office			
Career and technical Education, Title 1-C	84.048	12-C01-038	123,865
Total U.S. Department of Education			$ 2,165,403
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through from the California Community Colleges Chancellor's Office			
Temporary Assistance to Needy Families (TANF)	93.558	*	20,927
Total U.S. Department of Health and Human Services			$ 20,927
U.S. Department of Agriculture			
Passed through California Department of Education			
Child Care Food Program	10.558	*	37,446
Total U.S. Department of Agriculture			37,446
Total Federal Expenditures			$ 2,223,776

[1]: Major Program

See the accompanying note to the supplementary information.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of State Awards
For the Fiscal Year Ended June 30, 2013

Program Name	Program Revenues: Cash Received	Program Revenues: Accounts Receivable	Program Revenues: Deferred Income	Total	Total Program Expenditures
Basic Skills & Initiative	$ 90,000	$ -	$ 30,765	$ 59,235	$ 59,235
California Grants	61,312	659	-	61,971	61,971
California Work Opportunity & Responsibility to Kids	116,297	-	-	116,297	116,297
Cooperative Agencies & Resources for Education	38,383	-	-	38,383	38,383
Disabled Students Programs & Services	134,382	-	-	134,382	134,382
Equal Employment Opportunity	3,725	-	-	3,725	3,725
Extended Opportunity Prgorams & Services	261,841	-	-	261,841	261,841
Matriculation-Credit	157,896	451	-	158,347	158,347
Matriculation-Non Credit	19,473	-	-	19,473	19,473
Strengthening Career Technical Education	49,389	-	-	49,389	49,389
Student Financial Aid Administration	163,659	-	-	163,659	163,659
	$ 1,096,357	$ 1,110	$ 30,765	$ 1,066,702	$ 1,066,702

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, 2013

	Reported Data
A. Summer Intersession (Summer 2012)	
1. Noncredit	-
2. Credit	56
B. Summer Intersession (Summer 2013 - Prior to July 1, 2013)	
1. Noncredit	-
2. Credit	88
C. Primary Terms (Exclusive of Summer Intersesion)	
1. Census Procedure Courses	
(a) Weekly Census Contact Hours	457
(b) Daily Census Contact Hours	2
2. Actual Hours of Attendance	
(a) Noncredit	32
(b) Credit	342
3. Alternative Attendance Accounting Procedure	
(a) Weekly Census Contact Hours	597
(b) Daily Census Contact Hours	24
(c) Noncredit Independent Study/Distance Education Courses	-
D. Total FTES	1,598
Supplemental Information (subset of above information)	
E. In-Service Training Courses	336
H. Basic Skills Courses & Immigrant Education	
1. Noncredit	10
2. Credit	151

See the accompanying note to supplementary information.

PALO VERDE COMMUNITY COLLEGE DISTRICT

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation
For the Fiscal Year Ended June 30, 2013

		ESC 84362 A Instructional Salary Cost AC 0100 - and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
ACADEMIC SALARIES	Object Codes	Reported Data	Audit Adjustment	Revised Data	Reported Data	Audit Adjustment	Revised Data
Instructional Salaries							
Contract or Regular	1100	$ 2,404,798		$ 2,404,798	$ 2,404,798		$ 2,404,798
Other	1300	538,944		538,944	538,944		538,944
Total Instructional Salaries		2,943,742		2,943,742	2,943,742		2,943,742
Non-Instructional Salaries							
Contract or Regular	1200				696,221		696,221
Other	1400						
Total Non-Instructional Salaries					696,221		696,221
Total Academic Salaries		2,943,742		2,943,742	3,639,963		3,639,963
CLASSIFIED SALARIES							
Non-Instructional Salaries							
Regular Status	2100				1,680,046		1,680,046
Other	2300				1,714		1,714
Total Non-Instructional Salaries					1,681,760		1,681,760
Instructional Aides							
Regular Status	2200						
Other	2400	15,409		15,409	15,409		15,409
Total Instructional Aides		15,409		15,409	15,409		15,409
Total Classified Salaries		15,409		15,409	1,697,169		1,697,169
Employee Benefits	3000	1,067,457		1,067,457	2,296,263		2,296,263
Supplies and Materials	4000				76,040		76,040
Other Operating Expenses	5000	698,077		698,077	1,983,633		1,983,633
Equipment Replacement	6420						
Total Expenditures Prior to Exclusions		4,724,685		4,724,685	9,693,068		9,693,068
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	259,872		259,872	259,872		259,872
Student Health Services Above Amount Collected	6441						
Student Transportation	6491				15,000		15,000
Non-Instructional Staff - Retirees' Benefits and Retirement Incentives	6740				453,933		453,933
Objects to Exclude							
Rents and Leases	5060				326,576		326,576
Lottery Expenditures							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials	4000						
Software	4100						
Books, Magazines, & Periodicals	4200						
Instructional Supplies & Materials	4300						
Noninstructional, Supplies & Materials	4400						
Total Supplies and Materials							
Other Operating Expenses and Services	5000				124,879		124,879
Capital Outlay	6000						
Library Books	6300						
Equipment	6400						
Equipment - Additional	6410						
Equipment - Replacement	6420						
Total Equipment							
Total Capital Outlay							
Other Outgo	7000						
Total Exclusions		259,872		259,872	1,180,260		1,180,260
Total for ECS 84362, 50% Law		$ 4,464,813		$ 4,464,813	$ 8,512,808		$ 8,512,808
Percent of CEE (Instructional Salary Cost / Total CEE)		52.45%		52.45%	100%		100%
50% of Current Expense of Education					$ 4,256,404		$ 4,256,404

See the accompanying note to supplementary information.

	Capital Outlay Fund
FUND BALANCE	
June 30, 2013, Annual Financial & Budget Report (Form CCFS-311) Fund Balances	$ 12,194,512
Adjustments and reclassifications increasing/ (decreasing) fund balance:	
Cash	(2,001)
Audited financial statements fund balance	$ 12,192,511

See the accompanying note to supplementary information

PALO VERDE COMMUNITY COLLEGE DISTRICT

Proposition 30 Education Protection Act (EPA) Expenditure Report
For the Fiscal Year Ended June 30, 2013

Activity Classification	Object Code			Unrestricted	
EPA Proceeds:	8630				$ 2,055,481
Activity Classification	**Activity Code**	**Salaries and Benefits (Obj 1000-3000)**	**Operating Expenses (Obj 4000-5000)**	**Capital Outlay (Obj 6000)**	**Total**
Instructional Activities	0100-5900	2,055,481	0	0	2,055,481
Total Expenditures for EPA		2,055,481	0	0	2,055,481
Revenues Less Expenditures					$ -

See the accompanying note to supplementary information

PALO VERDE COMMUNITY COLLEGE DISTRICT

Reconciliation of Governmental Funds to the Statement of Net Position
June 30, 2013

Total Fund Balance and Retained Earnings:		
General Funds	$ 1,328,732	
Special Revenue Funds	45,373	
Capital Outlay Projects	12,192,511	
Debt Service Funds	413,412	
Proprietary Funds	287,520	
Internal Service Funds	285,598	
Fiduciary Funds	60,143	
Total Fund Balances and Retained Earnings - All District Funds		$ 14,613,289
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	80,095,151	
Accumulated depreciation is	(10,789,743)	
Net Capital Assets		69,305,408
Amounts held in trust on behalf of others (Trust and Agency Funds)		(60,022)
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(128,372)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable	(5,322,808)	
Certificates of participation	(31,305,000)	
Loan payable	(64,286)	
Supplemental employee retirement plan	(819,343)	
Compensated absences (vacations)	(310,815)	
Other postemployment benefits (OPEB)	(145,830)	
Total Long-Term Obligations		(37,968,082)
Total Net Position - Governmental Activities		$ 45,762,221

See the accompanying note to supplementary information

PURPOSE OF SCHEDULES

History and Organization

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

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Schedule of Expenditures of State Awards

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

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

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which appointments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

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

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

Reconciliation of Annual Financial and Budget Report (CCFS-311) with Fund Financial Statements

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

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

Reconciliation of Governmental Funds to the Statement of Net Position

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

INDEPENDENT AUDITORS' REPORTS

Messner
& Hadley, LLP
Certified Public Accountants

Paul S. Messner, CPA
Cindra J. Hadley, CPA
James M. Quinn, CPA, CFE

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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the business-type activities and the fiduciary activities of Palo Verde Community College District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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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*.

Purpose of this Report

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

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 30, 2013

Messner & Hadley, LLP
Certified Public Accountants

Paul S. Messner, CPA
Cindra J. Hadley, CPA
James M. Quinn, CPA, CFE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Palo Verde Community College District's (the "District") compliance with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2013. The District's major Federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, 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 consider necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

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The Board of Trustees
Palo Verde Community College District

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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.

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 over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 30, 2013

Messner
& Hadley, LLP
Certified Public Accountants

Paul S. Messner, CPA
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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Palo Verde Community College District's (the "District") compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in April 2013 that could have a direct and material effect on each of the District's programs as noted below for the ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in April 2013.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of each of the District's programs based on our audit of the types of compliance requirements referred to above. 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider 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.

Unmodified Opinion on Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs notes below that were audited for the year ended June 30, 2013.

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The Board of Trustees
Palo Verde Community College District

In connection with out audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contract
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 431	Gann Limit Calculation
Section 433	CalWORKS
Section 435	Open Enrollment
Section 437	Student Fees – Instructional and Other Materials
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged (TBA) Hours
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

Purpose of this Report

This report is intended solely to describe the scope of our testing of compliance and the results of that testing based on requirements of the *Contracted District Audit Manual*. Accordingly, this report is not suitable for any other purpose.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 30, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALO VERDE COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2013

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Non-compliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major programs:	

CFDA Numbers	**Name of Federal Program or Cluster**
84.007,84.032,84.063	Student Financial Aid Cluster

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

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for State programs:	Unqualified

SECTION 2 – FINANCIAL STATEMENT FINDINGS

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under *Government Auditing Standards.*

SECTION 3 – FEDERAL AWARDS FINDINGS

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

SECTION 4 – STATE AWARDS FINDINGS

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

Summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

FINANCIAL STATEMENT FINDINGS

2012-1 PREPARATION OF FINANCIAL STATEMENTS

Finding Auditing and accounting standards state than 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 Impleme nted.

2012-2 CCFS-311

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

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 Implemented

FEDERAL AWARDS FINDINGS

There were no federal award findings or questioned costs in 2011-12.

STATE AWARDS FINDINGS

2012-1 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 46.87% 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 Implemented.