

IMPERIAL COMMUNITY COLLEGE DISTRICT

IMPERIAL COUNTY

IMPERIAL, CALIFORNIA

AUDIT REPORT

JUNE 30, 2003

**IMPERIAL COMMUNITY COLLEGE DISTRICT
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INTRODUCTORY SECTION

IMPERIAL COMMUNITY COLLEGE DISTRICT INTRODUCTION

Introduction

The audit has the following objectives:

- To obtain reasonable assurance about whether the Imperial Community College District's basic financial statements are free of material misstatement.
- To consider the Imperial Community College District's internal control over financial reporting and compliance with requirements that could have a direct and material effect on a major federal program.
- To perform tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
- To determine with reasonable assurance that the Imperial Community College District complied with certain state regulatory requirements.
- To recommend appropriate actions to correct noted deficiencies.

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INDEPENDENT AUDITOR'S REPORT

**The Board of Trustees
Imperial Community College District
Imperial, California**

We have audited the accompanying basic financial statements of the Imperial Community College District, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

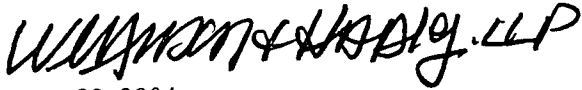
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Imperial Community College District as of June 30, 2003, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1A to the basic financial statements, the Imperial Community College District adopted provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments and Statement No. 35, Basic Financial Statements and Management Discussion and Analysis of Public Colleges and Universities. This results in a change in the formats and content of the basic financial statements.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial and statistical information identified as supplementary information, including the Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Handwritten signature in black ink, appearing to read "WILLIAM H. HAGGARD, LLP".

January 22, 2004

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

Introduction:

The following discussion and analysis provides an overview of the financial position and activities of the Imperial Community College District ("the District") for the year ended June 30, 2003.

The District was required to implement the reporting Standards of Governmental Accounting Standards Board Statements No. 34 and 35 during fiscal year 2002-03 using the Business Type Activity (BTA) Model. The California Community College Chancellor's Office, through its Fiscal Standards and Accounting Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with the recommendations of the Chancellor's office and to report in a manner consistent with other California Community College Districts, the District has adopted the BTA reporting model for these financial statements.

Imperial Community College District includes one main campus and three extended campus centers. These centers currently do not meet the definition of an educational center as defined by the Board of Governors because we do not generate 500 or more FTES at these locations. It is the desire of the District to reach that status in the next few years.

In addition to the centers, the District also provides off-campus classes at several extension sites throughout the district in partnership with the local high school districts. In addition, the District operates a very successful Imperial Valley Small Business Development Center for the benefit of business and industry in the valley. Current enrollment at all locations exceeds 7,000 students.

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

Financial Highlights

This section is to provide an overview of the District's financial activities. Since this is a year of transition to the new format, only one year of information is presented in Management's Discussion and Analysis and in the accompanying audited financial statements. A comparative analysis will be provided in future years after prior year information is available.

During 2002-03, total full-time equivalent students increased approximately 4%. Credit FTES along with other workload measures are the basis for the District's state apportionment. Workload measures directly related to credit FTES accounts for over \$12 million state general apportionment.

Trend of Full Time Students as Reported on the Annual Report

	99-00	00-01	01-02	02-03
FTES	4,692	4,901	4,984	5,188

Statement of Net Assets

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

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

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

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

The Net Assets are divided into three major categories. The first category, invested in capital assets (net), provides the equity amount in property, plant and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets that are available to the District for any lawful purpose.

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

A Statement of Net Assets as of June 30, 2003 is summarized below:

	<u>2002-03</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 3,646,663
Receivables	<u>2,694,953</u>
Total current assets	6,341,616
Non-current assets	
Capital assets, net of accumulated depreciation	<u>7,262,987</u>
TOTAL ASSETS	<u>13,604,603</u>
LIABILITIES	
Current liabilities	
Accounts payable	703,348
Deferred revenue	559,882
Compensated absences	453,647
Bonds payable – current portion	180,000
Capital leases - current portion	<u>90,065</u>
Total current liabilities	<u>1,986,942</u>
Non-current liabilities	
Bonds payable	3,190,000
Capital leases payable	<u>199,935</u>
Total non-current liabilities	<u>3,389,935</u>
TOTAL LIABILITIES	<u>5,376,877</u>
NET ASSETS	
Invested in capital assets, net	3,602,987
Restricted	3,044,452
Unrestricted	<u>1,580,287</u>
TOTAL NET ASSETS	<u>8,227,726</u>
TOTAL LIABILITIES AND NET ASSETS	<u>13,604,603</u>

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

Approximately 56.4% of the cash balance as of June 30, 2003 remained deposited in the Imperial County Treasury and approximately 43.6% is in insured bank accounts.

The majority of the accounts receivable balance (\$2,694,953) is from federal and state sources for grant and entitlement programs. Also included is an account receivable for the 3rd and 4th quarter lottery payments of \$276,319.

Capital assets net a total of \$7.2 million. Depreciation expense of \$354,535 was recognized during 2002-03. Total increase of \$596,970 in capital equipment was recognized in 2002-2003.

Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2003. Total accounts payable and other current liabilities are \$1.9 million, which include amounts owed to or on behalf of employees for wages, benefits, and accrued vacation.

The District currently has one debt issue outstanding that amounts to \$3.3 million related to the issuance of lease revenue bonds to pay for the complete migration from its current computer legacy system to a fully integrated ERP system called SCT Banner. This debt is to cover the cost of consulting fees, hardware and software upgrade and technology infrastructure upgrades.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not by the District, the operating and non-operating expenses incurred, whether paid or not by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided; for example, state appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

The Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2003 is summarized below:

	<u>2002-03</u>
Operating Revenues	
Net tuition and fees	\$ 1,021,854
Grants and contracts, non-capital	14,646,954
Total operating revenues	<u>15,668,808</u>
Total operating expenses	37,575,943
Operating loss	<u>(21,907,135)</u>
Non-operating revenues (expenses)	
State apportionments, non-capital	13,914,965
Local property taxes	6,272,288
State taxes and other revenues	771,271
Investment income, net	<u>190,151</u>
Total non-operating revenues (expenses)	<u>21,148,675</u>
Change in net assets	(758,460)
Net assets, beginning of year	9,465,007
Prior year adjustment (change in estimates)	(478,821)
Net assets, end of year	<u>\$ 8,227,726</u>

Tuition and fees are generated by the resident, non-resident and foreign fees paid by students attending the District, including fees such as parking fees, community services classes and other related fees. As noted previously in this discussion and analysis, our enrollment continues to grow which translates into increased tuition and fees.

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

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

Operating expenses are 63% related to personnel costs. The balance of operating expenses is for supplies, other services, capital outlay items below the capitalization threshold, financial aid, insurance, utilities and depreciation expense.

State apportionment is generated based on the workload measures reported to the state by the District. The District has experienced increases in the various workload measures.

Local property taxes are received through the Imperial County Office of Education. The amount received for property taxes and the amount charged to students for enrollment (currently \$18.00 per unit) is deducted from the total state general apportionment amount calculated by the state for the District.

State apportionment, capital outlay, scheduled maintenance, architectural barrier removal and hazardous substance funding is received from the state through the Department of Finance. Capital outlay projects are typically funded 100% by the state while the other programs are funded at 50% to 90% of the project costs. The District has participated in the state's scheduled maintenance programs for several years, completing many capital projects for hundreds of thousands of dollars.

Statement of Cash Flows

The Statement of Cash Flows 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 used 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 used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

The Statement of Cash Flows for the year ended June 30, 2003 is summarized below:

	2002-03
Cash Provided By (Used in)	
Operating activities	\$ (22,887,293)
Non-capital financing activities	20,958,524
Capital and related financing activities	2,507,115
Investing activities	190,151
	768,497
Net increase in cash and cash equivalents	768,497
Cash balance, beginning of year	2,878,166
Cash balance, end of year	\$ 3,646,663

Cash receipts from operating activities are from student tuition and from federal, state and local grants. Uses of cash are payments to employees, vendors and students related to the instructional programs.

State apportionment received based on the workload measures generated by the District accounts for non-capital financing. Cash received from property taxes accounts for the cash generated in this section.

The primary use included in capital and related financing activities is the purchase of capital assets (building improvements, technology infrastructure improvements and equipment).

Cash from investing activities is interest earned on cash in bank and cash invested through the Imperial County Treasury pool. Approximately \$190,000 was received from the Imperial County Treasury pool.

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

District's Fiduciary Responsibility

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

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2003, the District had over \$7.2 million invested in net capital assets. Total capital assets of \$15.6 million consist of land, buildings and site improvements, data processing equipment and other office equipment. These assets have accumulated depreciation of \$8.3 million. Capital asset additions of \$596,970 occurred during the 2002-03 fiscal year with depreciation expense of \$354,535.

A summary of capital assets net of depreciation is presented below:

	<u>2002-03</u>
Land and improvements	\$ 175,900
Buildings and improvements	6,210,705
Equipment	876,382
Construction in progress	-
Net capital assets	<u>\$ 7,262,987</u>

Debt

At June 30, 2003, the District had \$4.1 million in debt; \$3.37 million from lease revenue bond obligations, \$290,000 in capital leases and \$453,647 in compensated absences. The lease revenue bonds were issued to fund a complete migration from our computer legacy system to SCT Banner. Debt payments on the bonds will be funded out of the general fund through property tax receipts collected over the term of the bonds.

**Imperial Community College District
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

A summary of long-term debt is presented below:

	<u>2002-03</u>
Long-term debt	
Bonds payable	\$ 3,370,000
Capital leases	290,000
Total long-term debt	<u>3,660,000</u>
Less current portion	<u>(270,065)</u>
Long term portion	<u>\$ 3,389,935</u>

Economic Factors that May Affect the Future

The economic position of the District is closely tied to that of the State of California. We are concerned for fiscal year 2003-04 and even more so for fiscal year 2004-05 and beyond due to the economy and budget for the State of California. There are concerns about the state's ability to increase funding for the workload measures generated by the District. In addition to reductions in funding, all industries, including education, in California are experiencing increased costs for services and especially increased costs for employee benefits, insurance and utilities.

Other than the items discussed above, the District is not aware of any current known facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Management will maintain a close watch over resources to maintain our ability to react to internal and external issues if and when they arise.

BASIC FINANCIAL STATEMENTS

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003**

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,646,663
Accounts receivable, net	2,694,953
Total current assets	6,341,616
Non-current assets:	
Capital assets, net of accumulated depreciation	7,262,987
TOTAL ASSETS	\$ 13,604,603
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 703,348
Deferred revenues	559,882
Compensated absences	453,647
Capital leases - current portion	90,065
Bonds payable - current portion	180,000
Total current liabilities	1,986,942
Non-current liabilities:	
Capital leases payable	199,935
Bonds payable	3,190,000
Total non-current liabilities	3,389,935
TOTAL LIABILITIES	5,376,877
NET ASSETS	
Invested in capital assets, net of related debt	3,602,987
Restricted	3,044,452
Unrestricted	1,580,287
TOTAL NET ASSETS	8,227,726
TOTAL LIABILITIES AND NET ASSETS	\$ 13,604,603

See the accompanying notes to the financial statements

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2003**

OPERATING REVENUES	
Tuition and fees	\$ 1,021,854
Grants and contracts, non-capital:	
Federal	8,895,611
State	4,881,257
Local	870,086
TOTAL OPERATING REVENUES	15,668,808
OPERATING EXPENSES	
Academic salaries	12,076,415
Classified salaries	6,986,296
Employee benefits	4,569,031
Supplies, materials and other operating expenses	4,910,768
Financial aid	8,021,820
Utilities	520,453
Interest and fiscal charges	136,625
Depreciation	354,535
TOTAL OPERATING EXPENSES	37,575,943
OPERATING LOSS	(21,907,135)
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	13,914,965
Local property taxes	6,272,288
State taxes and other revenue	771,271
Interest and investment income	190,151
TOTAL NON-OPERATING REVENUES (EXPENSES)	21,148,675
DECREASE IN NET ASSETS	(758,460)
NET ASSETS, BEGINNING OF YEAR	9,465,007
CHANGE IN ESTIMATES	(478,821)
NET ASSETS, END OF YEAR	\$ 8,227,726

See the accompanying notes to the financial statements

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
JUNE 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 1,021,854
Federal grants and contracts	8,895,611
State grants and contracts	4,881,257
Local grants and contracts	870,086
Payments to suppliers	(6,902,539)
Payments to/on behalf of employees	(23,631,742)
Payments to/on behalf of students	(8,021,820)
NET CASH USED BY OPERATING ACTIVITIES	<u>(22,887,293)</u>
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionment and receipts	14,686,236
Property taxes	6,272,288
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>20,958,524</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	3,370,000
Purchase of capital assets	(596,970)
Principal paid on capital debt	(129,290)
Interest paid on capital debt	(136,625)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>2,507,115</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	190,151
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>190,151</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	768,497
 CASH BALANCE, BEGINNING OF YEAR	2,878,166
 CASH BALANCE, END OF YEAR	<u><u>\$ 3,646,663</u></u>
 CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (21,907,135)
Adjustments to reconcile net loss to net cash (used) by operating activities:	
Depreciation	354,535
Changes in assets and liabilities:	
Receivables, net	(941,482)
Accounts payable	80,827
Accrued liabilities	(769,517)
Deferred revenues	(158,168)
Compensated absences	453,647
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (22,887,293)</u></u>

See the accompanying notes to the financial statements

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2003**

	Associated Students Trust	Scholarship and Loan Trust	Campus Organizations	Totals
ASSETS				
Cash on hand and in banks	42,120	42,704	59,677	144,501
Accounts receivable	-	20,000	-	20,000
TOTAL ASSETS	<u>42,120</u>	<u>62,704</u>	<u>59,677</u>	<u>164,501</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	-	1,445	-	1,445
TOTAL LIABILITIES	<u>-</u>	<u>1,445</u>	<u>-</u>	<u>1,445</u>
NET ASSETS				
Unrestricted	42,120	61,259	59,677	163,056
TOTAL NET ASSETS	<u>42,120</u>	<u>61,259</u>	<u>59,677</u>	<u>163,056</u>
TOTAL LIABILITIES AND NET ASSETS	<u>42,120</u>	<u>62,704</u>	<u>59,677</u>	<u>164,501</u>

See the accompanying notes to the financial statements

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2003**

	<u>Associated Students Trust</u>	<u>Scholarship and Loan Trust</u>	<u>Campus Organizations</u>	<u>Totals</u>
REVENUES				
Interest and investment income	\$ 27	\$ 413	\$ 169	\$ 609
Local revenues	25,756	626,101	434,132	1,085,989
TOTAL REVENUES	<u>25,783</u>	<u>626,514</u>	<u>434,301</u>	<u>1,086,598</u>
EXPENDITURES				
Classified salaries	1,200	-	-	1,200
Other operating expenses	21,639	620,262	434,301	1,076,202
TOTAL EXPENDITURES	<u>22,839</u>	<u>620,262</u>	<u>434,301</u>	<u>1,077,402</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,944</u>	<u>6,252</u>	<u>-</u>	<u>9,196</u>
FUND BALANCES, BEGINNING OF YEAR	39,176	47,769	60,669	147,614
CHANGE IN ESTIMATES	-	7,238	(992)	6,246
FUND BALANCES, END OF YEAR	<u>\$ 42,120</u>	<u>\$ 61,259</u>	<u>\$ 59,677</u>	<u>\$ 163,056</u>

See the accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

**IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments and including Statement No. 35, Basic Financial Statements and Management Discussion and Analysis of Public Colleges and Universities, issued in June and November 1999 and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements.

The budgetary and financial accounts of the district have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's *Budget and Accounting Manual*. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities.

B. Reporting Entity

Imperial Community College District provides higher education in the County of Imperial, State of California. The District consists of one campus located in Imperial, California.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles and GASB Statement No. 14. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board of Trustee's ability to exercise oversight responsibility. A second criterion used in evaluating potential component units is the scope of public service. A third criterion used to evaluate potential component units is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of the criteria listed above, the following potential component units have been excluded from the District's entity:

Imperial Valley College Foundation

The Imperial Valley College Foundation is a separate not-for-profit corporation. The Board of Directors is appointed independent of any District Board of Trustee's appointments. Their board is responsible for approving their own budgets and accounting and finance related activities.

Separate financial statements for the Foundation may be obtained through the District.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

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

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. When the District incurs an expenditure or an expense for which both unrestricted and restricted resources may be used, it is the District's policy to use restricted resources first, and then unrestricted resources.

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

By state law, the District's governing board must approve a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles. The District's governing board revises these budgets during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

In accordance with GASB Statement No. 20, the District follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superceded or rescinded. The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after the applicable date.

D. Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances were liquidated at June 30 since they do not constitute expenditures or liabilities.

E. Assets Liabilities, and Equity

1. Cash and Cash Equivalents

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Equity (Continued)

1. Cash and Cash Equivalents (Continued)

The market value of pledged securities must equal 110% 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% of an agency's total deposits, and collateral is considered to be held in the name of the District. All District cash held by financial institutions is entirely insured or collateralized.

In accordance with Education Code Section 41001, the District maintains a substantial amount of its cash in the Imperial County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with Imperial County Treasury was not available.

2. Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, State and local governments or private resources, 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. There were no significant receivables which are not scheduled for collection within one year of year-end.

3. Inventory

Inventory is valued at the lower of cost or market utilizing the first-in first-out method and consists of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are withdrawn from the stores inventory for consumption.

4. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as liabilities of the District as compensated absences in the Statement of Net Assets. Accumulated employee sick leave benefits are not recognized as liabilities 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.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Equity (Continued)

5. Capital Assets

Capital assets are recorded 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 and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Interest incurred during construction is not capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 25-50 years for buildings, 20-25 years for building and land improvements, and 5-15 years for equipment and vehicles.

6. Net Assets

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

Restricted net assets – expendable: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar fund types in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District has no restricted assets – nonexpendable.

Unrestricted net assets: Unrestricted net assets represent resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board, as designated, to meet current expenses for specific future purposes.

7. Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Imperial bills and collects the taxes for the District. Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis.

G. On-Behalf Payments

GASB Statement No. 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 Retirement System on behalf of all community college districts in California; however, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$579,871.

H. Classification of Revenues

The District has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as student fees and Federal and most State and local grants and contracts.

Non-operating revenues – Non-operating revenues include activities that have the characteristics of non-exchange 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 Non-expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting, and GASB No. 33, such as investment income.

I. Tuition and Fees

Student tuition and fee revenues, and certain other revenues from students, are reported in the statement of revenues, expenses, and changes in net assets. Certain governmental grants, such as Pell Grants, and other federal, state or nongovernmental programs are recorded as operating revenues in the District's financial statements.

J. Accounting Changes

As a result of the adoption of GASB Statements No. 34 and No. 35, the District was also required to make certain changes in accounting principles, specifically the adoption of depreciation on capital assets for all funds and the recording of long-term debt. Net assets at July 1, 2002 were increased \$6,173,941 for the cumulative effect of these changes on years prior to the fiscal year ended June 30, 2003.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Use of Estimates

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

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the district maintains a significant portion of its cash in the Imperial County Treasury as part of the common investment pool (\$2,056,836 as of June 30, 2003).

The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. Government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

In accordance with GASB 31, investments in the cash in county treasury should be recorded at fair value. However, the District determined that the fair value approximates cost; therefore, no adjustment was made to reflect the difference.

Cash on Hand, in Banks, and in Revolving Funds

Cash balances on hand and in banks (\$276,559 as of June 30, 2003) and in revolving funds (\$20,000) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by financial institutions is entirely insured or collateralized.

Cash with Fiscal Agent

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end.

These custodial risk categories are as follows:

Category 1 - Investments that are insured, registered or held by its agent in the District's name.

Category 2 - Investments that are uninsured and unregistered held by the counter party's trust department or agent in the District's name.

Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the District's name.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash With Fiscal Agent (Continued)

The District's investments at June 30, 2003 are shown below.

<u>Investment</u>	<u>Category</u>			<u>Reported Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Investment Contracts	\$ -	\$1,394,790	\$ -	\$1,394,790	\$1,394,790
U.S. Treasury Obligations	-	42,979	-	42,979	42,979
Totals	<u>\$ -</u>	<u>\$1,437,769</u>	<u>\$ -</u>	<u>\$1,437,769</u>	<u>\$1,437,769</u>

Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value.

The term "short-term" refers to investments, which have a remaining term of one year or less at a time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

NOTE 3 - ACCOUNTS RECEIVABLE

Governmental funds accounts receivable at June 30, 2003 consists of the following:

Federal	\$ 295,367
State	1,975,379
Local	374,478
Interest	<u>49,729</u>
Total	<u>\$2,694,953</u>

NOTE 4 - INTERFUND TRANSACTIONS

Interfund activity has been eliminated in the basic financial statements as required by GASB No. 34.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

NOTE 5 - CAPITAL ASSETS

A summary of changes in capital asset activity is as follows:

	<u>*Balance July 1, 2002</u>	<u>Net Change in Capital Assets</u>	<u>Balance June 30, 2003</u>
<u>Capital Assets</u>			
Land	\$ 175,900	\$ -	\$ 175,900
Site Improvements	434,953	-	434,953
Buildings	13,536,825	-	13,536,825
Equipment	881,480	596,970	1,478,450
Total Cost	<u>15,029,158</u>	<u>596,970</u>	<u>15,626,128</u>
<u>Accumulated Depreciation</u>			
Site Improvements	(433,188)	(321)	(433,509)
Buildings	(7,053,133)	(274,431)	(7,327,564)
Equipment	(522,285)	(79,783)	(602,068)
Total Accumulated Depreciation	<u>(8,008,606)</u>	<u>(354,535)</u>	<u>(8,363,141)</u>
Net Capital Assets	<u>\$ 7,020,552</u>	<u>\$ 242,435</u>	<u>\$ 7,262,987</u>

*The balance at July 1, 2002 has been restated to reflect changes in capitalization and reporting policies for implementation of GASB 34/35.

NOTE 6 - BONDS PAYABLE

In August 2002, the District entered into a trust indenture with the California Community College Financing Authority to issue lease revenue bonds in order to provide funding for the implementation of a District-wide computer and software networking system.

The bonds consist of Series 2002A bonds of which the District's portion of issuance was \$3,370,000. Interest is payable February 1 and August 1 of each year, commencing on February 1, 2003 at rates ranging from 1.4% to 5.0%. Principal is payable on August 1 of each year, commencing on August 1, 2003 and through the maturity date August 1, 2017.

The outstanding bonded debt of the District as of June 30, 2003 is as follows:

<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amounts Original Issue</u>	<u>Amounts Outstanding July 1, 2002</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Amounts Outstanding June 30, 2003</u>
2002	1.4% - 5.0%	2017	<u>\$3,370,000</u>	<u>\$3,370,000</u>	<u>\$3,370,000</u>	<u>\$ -</u>	<u>\$3,370,000</u>

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 6 – BONDS PAYABLE (Continued)

The annual requirements to amortize bonds payable outstanding as of June 30, 2003 is as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 180,000	\$ 122,360	\$ 302,360
2005	185,000	119,428	304,428
2006	190,000	115,908	305,908
2007	190,000	111,728	301,728
2008	195,000	106,683	301,683
2009-2013	1,085,000	429,788	1,514,788
2014-2018	1,345,000	169,785	1,514,785
Total	<u>\$3,370,000</u>	<u>\$1,175,680</u>	<u>\$4,545,680</u>

NOTE 7 - CAPITAL LEASES

The district leases various equipment and improvements under agreements, which provide for bargain purchase options or for title to pass upon expiration of the lease periods. Future minimum lease payments including principal and interest are as follows:

Fiscal Year Year Ending June 30	Lease Payment
2004	\$ 107,226
2005	101,378
2006	50,017
2007	43,775
2008	<u>23,885</u>
Total Minimum Payments	326,281
Less Interest Portion	<u>(36,281)</u>
Total Present Value Payments	<u>\$ 290,000</u>

NOTE 8 - GENERAL LONG-TERM DEBT

Long-Term Debt Summary

A schedule of changes in long-term debt for the year ended June 30, 2003 is shown below:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Amount Due In One Year
Bonds Payable	\$ -	\$3,370,000	\$ -	\$3,370,000	\$ 180,000
Capital Leases	<u>419,290</u>	<u>-</u>	<u>129,290</u>	<u>290,000</u>	<u>90,065</u>
Totals	<u>\$ 419,290</u>	<u>\$3,370,000</u>	<u>\$ 129,290</u>	<u>\$3,660,000</u>	<u>\$ 270,065</u>

**IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

NOTE 9 – CHANGE IN ESTIMATES

Change in estimates represents adjustments to prior year accounts receivable for the difference between the amounts of accounts receivable estimated and accrued at June 30, 2002 and the actual amount of accounts receivable subsequently collected in fiscal year 2002-03.

Additionally, change in estimates represents adjustments to prior year accounts payable for the difference between the amounts of accounts payable estimated and accrued at June 30, 2002 and the actual amount of accounts payable subsequently paid in fiscal year 2002-03.

NOTE 10- POST EMPLOYMENT BENEFITS

The District provides post employment health care benefits, in accordance with District employment contracts to all employees who retire from the District. The retiree must have worked for the District for at least twelve years.

Expenditures for post employment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the fiscal year, expenditures of \$470,216 were recognized for retirees' health care benefits. The estimated cost for the 2003-04 fiscal year is \$526,216.

Under this plan, the District has agreed to continue to provide these benefits without any additional performance from these retirees. The District does not recognize a liability for future post employment health care benefits because the amount cannot be reasonably determined.

NOTE 11 -DEFERRED REVENUE

Deferred revenue consists of state and local revenues that have been received as of June 30, 2003 for the subsequent 2003-04 fiscal year. As of June 30, 2003 the District's deferred revenue balance consists of the following:

	<u>General Fund</u>
State revenues	\$488,973
Local revenues	<u>70,909</u>
Total	<u>\$559,882</u>

NOTE 12 -COMMITMENTS AND CONTINGENCIES

Litigation

The District is periodically involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the District's basic financial statements.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

Sick Leave

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. It is, therefore, not appropriate to accrue the value of accumulated sick leave.

State and Federal Allowances, Awards and Grants

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

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees of the district are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

Plan Description and Provisions

STRS:

Plan Descriptions

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. 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. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% 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 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2003, 2002, and 2001 were \$941,633, \$722,803 and \$714,635 respectively, and equal 100% of the required contributions for each year.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (Continued)

PERS:

Plan Descriptions

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by PERS. 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 statute, as legislatively amended, within the Public Employees' Retirement Law. PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), 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 PERS Board of Administration. The required employer contribution rate for fiscal year 2002-03 was 2.39% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to PERS for the fiscal year ending June 30, 2003, 2002, and 2001 were \$147,652, \$0, and \$0, respectively, and equal 100% of the required contributions for each year.

NOTE 14- RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General and Internal Service Funds. The purpose of the funds is to administer employee dental, property and liability, and workers' compensation insurance programs of the District.

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 has one self-insurance fund (Internal Service Fund) to account for and finance its uninsured risks of loss. The Internal Service Fund provides health and dental coverage to employees.

Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 15- JOINT VENTURES - JOINT POWERS AGREEMENTS

The Imperial Community College District participates in two joint ventures under a joint powers agreement (JPA) with the County Schools Insurance Group. The relationship between the Imperial Community College District and the JPA is such that the JPA is not a component unit of the Imperial Community College District for financial reporting purposes.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

NOTE 15- JOINT VENTURES - JOINT POWERS AGREEMENTS (Continued)

The JPA arranges for and provides workers compensation, health, property and liability insurance for its members. A board consisting of a representative from each member district governs the JPA. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. Financial information for the JPA at June 30, 2003 was not available

NOTE 16- COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not Applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

The following are funds having deficit balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount/Remarks</u>
None Reported	Not Applicable

SUPPLEMENTARY INFORMATION

**IMPERIAL COMMUNITY COLLEGE DISTRICT
ORGANIZATION
JUNE 30, 2003**

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mr. Rudy Cardenas, Jr.	President	November 2003
Ms. Rebecca L. Ramirez	Clerk	November 2005
Mr. Kelly Keithly	Member	November 2005
Mr. Romualdo J. Medina	Member	November 2003
Mr. Louis Wong	Member	November 2003
Mrs. Marian A. Long	Member	November 2003
Mr. Carlos Acuna	Member	November 2005

EXECUTIVE AND SENIOR ADMINISTRATION

Dr. Paul Pai
Superintendent/President

Mr. Carlos Fletes
Vice President for Business Services

Mr. John Hunt
Vice President for Academic Services

Dr. Victor Jaime
Vice President for Student Services

**IMPERIAL COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
 ANNUALIZED ATTENDANCE AS OF JUNE 30, 2003**

<u>Categories</u>	<u>Reported and Audited Annual FTES</u>
Credit Full-Time Equivalent Student (FTES)	
Weekly Census	4,326.53
Actual Hours of Attendance	435.02
Independent Study/Work Experience	10.78
Summer Intersession	<u>416.36</u>
Total	<u><u>5,188.69</u></u>
Noncredit FTES	
Actual Hours of Attendance	-
Summer Session	<u>-</u>
Total	<u><u>-</u></u>
Credit Student Headcount	
Fall Session - 2002	7,367
Spring Session - 2003	7,838
Gross Square Footage	
Existing Facilities	261,426

**IMPERIAL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Summarized below are the fund equity reconciliations between the Annual Financial and Budget Report (CCFS-311) and the audited financial statements:

	<u>Capital Projects Fund</u>
<u>Fund Balance</u>	
Balance, June 30, 2003 per the CCFS-311	<u>\$ 662,152</u>
Adjustments and Reclassifications:	
Increase (Decrease) in Fund Balance:	
Understatement of cash with fiscal agent	1,437,769
Understatement of accounts payable	<u>(119,243)</u>
Total Adjustments and Reclassifications	<u>1,318,526</u>
Balance, June 30, 2003 per audited financial statements	<u>\$1,980,678</u>

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Form CCFS-311 to the audited financial statements based upon governmental accounting principles. Additional entries were made to comply with the GASB 34/35 requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Federal Programs:			
U.S. Department of Education:			
Pell Grant	84.063	-	\$6,207,390
Supplemental Educational Opportunity Grant	84.807	-	474,774
College Work Study	84.033	-	385,789
Upward Bound	84.047	-	519,336
Student Support Services	84.042	-	335,588
Talent Search	84.044	-	288,085
Tech Prep	84.048	-	20,195
Pell Administration	84.063	-	14,000
Passed through California Department of Education (CDE):			
VATEA-Title I C	84.048	03577	387,707
Passed through Southwestern Community College District:			
Small Business Administration	84.153	-	<u>135,086</u>
Total U.S. Department of Education			8,767,950
U.S. Department of Veterans Affairs:			
Veterans Education	64.116	-	<u>1,008</u>
U.S. Department of Agriculture:			
Nutrition Programs	10.555	-	<u>38,980</u>
Total Expenditures of Federal Awards			<u>\$8,807,938</u>

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Imperial Community College District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB 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 general-purpose financial statements.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, Imperial Community College District did not provide any federal awards to subrecipients.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

OMB Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations*, requires a disclosure of the expenditures of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 and state requirements.

B. Schedule of Workload Measures for State General Apportionment

Full Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District on a full time basis.

The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to the community college districts. This schedule provides information regarding the attendance of students throughout the District.

C. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

OTHER INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**Board of Trustees
Imperial Community College District
Imperial, California**

We have audited the basic financial statements of Imperial Community College District as of and for the year ended June 30, 2003, and have issued our report thereon dated January 22, 2004. 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.

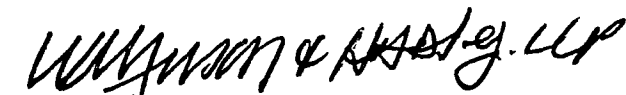
Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Imperial Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses; however, we noted certain other matters that are reported in the Schedule of Audit Findings and Questioned Costs.

This report is intended solely for the information and use of the Board of Trustees, the California Community College Chancellor's Office, the California Department of Education, the California Department of Finance, management, and county, state, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



January 22, 2004

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE REQUIREMENTS

**Board of Trustees
Imperial Community College District
Imperial, California**

We have audited the basic financial statements of the Imperial Community College District for the year ended June 30, 2003, and have issued our report thereon dated January 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the California Community College Chancellor's Office *Contracted District Audit Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we performed an audit for compliance as required in Part II, State and Federal Compliance Requirements for those programs identified in the State Department of Finance's July 2003 transmittal of audit requirements for community colleges. The objective of the examination of compliance applicable to Imperial Community College District is to determine with reasonable assurance that the District complied with requirements for:

General Directives

- Management Information System Implementation – Required Data Elements

Administration

- Fiscal operations – Salaries of Classroom Instructors (50 Percent Law)
- Fiscal operations – Gann Limit Calculation
- Apportionments – Residency Determination For Credit Courses
- Apportionments – Students Actively Enrolled
- Apportionments – Concurrent Enrollment of K-12 Students In Community College Courses
- Apportionments – Apportionment for Instructional Service Agreements/Contracts
- Apportionments – Enrollment Fees

Student Services

- Matriculation – Uses of Matriculation Funds

Special Programs

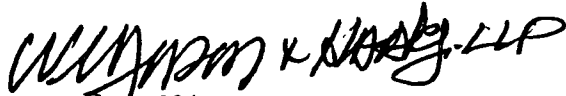
- Extended Opportunity Programs and Services (EOPS) Allocation of Costs
- Extended Opportunity Programs and Services (EOPS) Administrator/Director Requirements

Facilities

- Scheduled Maintenance Program

In our opinion, the Imperial Community College District complied with the compliance requirements for the state programs listed and tested above. Further, nothing came to our attention as a result of the aforementioned procedures to indicate the district had not complied with the terms and conditions of state assisted educational programs not selected for testing. Our audit of compliance made for the purposes set forth in the preceding paragraph of this report would not necessarily disclose all instances of noncompliance.

This report is intended solely for the information of the Board of Trustees, the California Community College Chancellor's Office, the California Department of Education, the California Department of Finance, management, and county, state, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



January 22, 2004

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**Board of Trustees
Imperial Community College District
Imperial, California**

Compliance

We have audited the compliance of the Imperial Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the district's compliance with those requirements.

In our opinion, the Imperial Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Trustees, the California Community College Chancellor's Office, the California Department of Education, the California Department of Finance, management, and county, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williamson & Staley, LLP
January 22, 2004

FINDINGS AND RECOMMENDATIONS

**IMPERIAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2003**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major programs:	Name of Federal Program or Cluster
<u>CFDA Number</u>	<u>Student Financial Aid Cluster</u>
84.063, 84.807, 84.033	Upward Bound
84.047	Student Support Services
84.042	VATEA-Title I C
84.048	
Dollar threshold to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

State Awards

Type of auditor's report issued on compliance for state programs:	Unqualified
Internal control over state programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	No

**IMPERIAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2003
(Continued)**

Section II-Financial Statement Findings

**Finding 2003-1
Financial Statements Reporting**

Criteria/Specific Requirements

Internal accounting and administrative controls should be sufficient to ensure year-end financial statements are properly stated and materially correct.

Condition

In our review of the financial statements and balance sheet for the Capital Projects Fund, we noted that the District did not account for the transactions and balances of the cash with fiscal agent accounts that were initiated upon the issuance of the lease revenue bonds. The transactions and cash balances for these accounts had not been properly recorded and reflected within the financial statements of the Capital Projects Fund; therefore, audit adjustments had to be posted in order to reflect proper balance sheet and income statement amounts. In addition, an audit adjustment was required to recognize additional accounts payable that were not accrued at year-end. The net results of these adjustments are reflected in the audit report under the section that reconciles Form CCFS-311 with the audited financial statements.

Questioned Costs

Not Applicable

Recommendation

We strongly recommend reviewing all transactions and activity of the District funds prior to year-end. Include all activity and transaction data within the fiscal agent cash accounts in the financial statements and balance sheet of the Capital Projects Fund. In addition, review all invoice payments in the subsequent fiscal year to ensure any unrecorded liabilities are properly accrued within the current fiscal year.

District Response

This is the first year the District has presented the financial information in the new balance sheet format as required by Governmental Accounting Standards Board Statements No. 34 and 35. Procedures will be established to reconcile all ending balances with the CCFS-311 and supporting documents

Section III-Federal Award Findings and Questioned Costs

No matters reported.

Section IV-State Award Findings and Questioned Costs

No matters reported.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2003**

<u>Finding and Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>2002-1 Financial Statements Reporting</p> <p>Balance sheet and income amounts did not agree to supporting documentation. Significant corrections were required to reconcile Form CCFS-311 to district financial data and support.</p> <p>Establish procedures to ensure all the amounts listed within the district-wide financial statements reconciles to Form CCFS-311. Disclose all transactions and ending balances for all asset accounts within the financial statements</p>	<p>Partially Implemented</p>	<p>See Current Year Finding</p>
<p>2002-2 Revolving Cash</p> <p>The revolving cash account is not being reconciled to the fund balance on a monthly basis.</p> <p>Implement procedures to ensure the cash account is reconciled to the actual fund balance on a monthly basis.</p>	<p>Implemented</p>	