

IMPERIAL COMMUNITY COLLEGE DISTRICT

IMPERIAL COUNTY

IMPERIAL, CALIFORNIA

AUDIT REPORT

JUNE 30, 2005

**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 business-type activities and the discretely presented component unit of the Imperial Community College District, as of and for the year ended June 30, 2005, 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, 2005, 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 December 8, 2005 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.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. 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.

Wilkinson Hadley & Co., LLP

El Cajon, California
December 8, 2005

**IMPERIAL COMMUNITY COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2005**

INTRODUCTION

The Imperial Community College District (the District) consists of one main campus and three separate extended campus centers. The District serves approximately 8,000 students. Full-Time Equivalent Student (FTES) enrollment for 2004-05 was 5,995.

The following discussion and analysis provides an overview of the financial position and activities of the Imperial Community College District for the year ended June 30, 2005. Please read it in conjunction with the financial statements and notes thereto which follow this section.

FINANCIAL HIGHLIGHTS

During 2004-05, total full-time equivalent students increased approximately 9.89%. 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 \$18 million state general apportionment.

Trend of Full Time Students as Reported on the Annual Report

	00-01	01-02	02-03	03-04	04-05
FTES	4,901	4,984	5,188	5,456	5,995

OVERVIEW OF THE FINANCIAL STATEMENTS

The District was required to implement the reporting standards of Governmental Accounting Standards Board (GASB) Statement No. 34, as amended by GASB Statement No. 35 on July 1, 2002. This adoption changed the format and the content of the District's basic financial statements. The District is following the Business Type Activity (BTA) model. Rather than issuing fund-type financial statements, this GASB Statement No. 34 requires the following components to be included in the District's financial statements:

- Management's Discussion and Analysis;
- Basic financial statements including a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows for the District as a whole; and
- Notes to the financial statements.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2005**

Additionally, fund balance is now referred to as Net Assets, and the Statement of Cash Flows is presented using the direct method.

The basic financial statements are designed to provide readers with a broad overview of the District's finances, using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities.

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 difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the District, or one way to measure the financial health of the District.

The net assets are divided into three major categories. The first category, Investment in Capital Assets, represents 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. Restrictions can also be enforced through agreements, laws, or regulations of creditors, other governmental agencies, imposed bylaws through constitutional provisions or enabling legislation. The final category is Unrestricted Net Assets that are available to the District for any lawful purpose. Although unrestricted, the District's Governing Board may place internal restrictions on these net assets, but it retains the power to change, remove, or modify such restrictions.

The ***Statement of Revenues, Expenses and Changes in Net Assets*** represents the operating results of the District. The purpose of the statement is to present the revenues received by the District, both operating and non-operating, the expenses paid by the District, operating and non-operating, and any other revenues, expenses, gains and losses. Thus, this statement presents the District's results of operations.

Changes in total net assets, as indicated on the Statement of Net Assets, are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. 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 revenues because the State Legislature provides them to the District without the Legislature directly receiving commensurate goods and services for the revenues.

The ***Statement of Cash Flows*** provides information about cash receipts and cash payments during the fiscal year, major uses and sources of cash. This statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they become due and evaluate the need for external financing.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2005**

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 activities of the institution. The third section deals with the cash used for the acquisition and construction of capital and related financing activities. The fourth part provides information from investing activities. This section reflects the cash received and spent for short-term investment and any interest paid or received on those investments.

The final section reconciles the net cash provided by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets. The net cash reconciliation is shown in the expanded version of the Statement of Cash Flows in the financial statements.

The Statement of Net Assets as of June 30, 2005, is summarized below:

Statement of Net Assets				
	June 30, 2005	June 30, 2004	Change	
Current assets	36,479,288	9,838,242	26,641,046	
Capital assets	6,449,117	7,094,200	(645,083)	
Total Assets	42,928,405	16,932,442	25,995,963	153%
Current liabilities	5,444,278	2,317,004	3,127,274	
Long-term liabilities	30,629,091	6,613,247	24,015,844	
Total Liabilities	36,073,369	8,930,251	27,143,118	67%
Net assets				
Invested in capital assets net of related debt	2,840,870	205,265	2,635,605	
Restricted	2,824,511	4,601,461	(1,776,950)	
Unrestricted	1,189,655	3,195,465	(2,005,810)	
Total Net Assets	6,855,036	8,002,191	(1,147,155)	(14%)
Total Liabilities and Net Assets	42,928,405	16,932,442	25,995,963	153%

The District's total assets increased \$25.9 million from the previous year. The majority of the increase was based on issuance of General Obligation Bonds and conservative budgeting and expenditure practices.

Total liabilities increased by \$27.1 million. This increase was mainly in the long-term liabilities due to the issuance of General Obligation Bonds in the amount of \$24,500,000.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2005**

The Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2005, is summarized below:

Statement of Revenues, Expenses and Changes in Net Assets

	June 30, 2005	June 30, 2004	Change	
Operating revenues	19,705,324	17,634,688	2,070,636	12%
Operating expenses	45,626,843	38,741,113	6,885,730	18%
Deficit before depreciation and non-operating income and expense	(25,921,519)	(21,106,425)	(4,815,094)	23%
Depreciation	290,508	487,895	197,387	41%
Deficit before non-operating income and expense	(26,212,027)	(21,594,320)	(4,617,707)	22%
Non-operating income and expense, net	25,225,177	21,489,812	3,735,365	18%
Increase (decrease) in net assets	<u>(986,850)</u>	<u>(104,508)</u>	<u>(882,342)</u>	<u>845%</u>

Operating Revenues

The Changes in Net Assets comparison presents the District's results of operation and shows a decrease of \$882,342. Operating revenues over operating expenses decreased by \$4,617,707. State apportionment and property taxes are recorded in non-operating income. Net non-operating income and expense increased by \$3,735,365.

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.

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

Operating Expenses

Operating expenses are 61% related to personnel costs. The balance of operating expenses is for supplies, other services, and 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.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2005**

Local property taxes are received through the Imperial County Office of Education. The amount received for property taxes and 98% of the amount charged to students for enrollment (currently \$26.00 per unit) is deducted from the total state general apportionment amount calculated by the state for the District.

The Statement of Cash Flows for the year ended June 30, 2005 is summarized below:

	June 30, 2005	June 30, 2004	Change	
Operating activities	(24,970,127)	(21,153,258)	(3,816,869)	18%
Non-capital financing activities	23,777,048	21,569,371	2,207,677	10%
Capital and related activities	25,344,092	2,620,955	22,723,137	867%
Investing activities	544,801	106,855	437,946	409%
Net Increase in Cash and Cash Equivalents	24,695,814	3,143,923	21,551,891	685%
Cash Balance, Beginning of Year	6,790,586	3,646,663	3,143,923	86%
Cash Balance, End of Year	31,486,400	6,790,586	24,695,814	364%
Cash Used by Operating Activities	(24,970,127)	(21,153,258)	3,816,869	18%

DISTRICT 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 the District 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.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2005**

CAPITAL ASSETS

As of June 30, 2005, the District had over \$15.1 million invested in capital assets. Capital assets consist of land and land improvements; buildings and building improvements, infrastructure, vehicles, data processing equipment and other equipment that met the capitalization threshold recommended by GASB 35. These assets have accumulated depreciation of \$8.7 million, leaving a net asset amount of \$6.4 million.

A summary of capital assets net of accumulated depreciation and changes therein is presented below:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Change</u>	
Land & Improvements	283,849	181,644	102,205	56%
Buildings & Improvements	5,503,038	5,936,274	(433,236)	-7%
Equipment	662,230	976,282	(314,052)	-32%
Total	<u>6,449,117</u>	<u>7,094,200</u>	<u>(645,083)</u>	<u>-9%</u>

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The 2005-06 state budget is relatively positive and includes a 4.23% COLA for Imperial Valley College. The second phase of equalization funding was not fully funded for 2005-06, reducing equalization funding for Imperial Valley College by about \$350,000.

Imperial Valley College hired 25 new full-time faculty members in 2004-05 and another 15 new full-time faculty for 2005-06 in an effort to provide more access to the students of the Imperial Valley. The college is currently looking at an anticipated growth of about 5.66% to 6%. Imperial Valley College will continue to monitor its enrollment numbers very closely.

In November 2004, the voters of Imperial County passed a \$58.6 million dollar bond issue to help fund the construction of several buildings on the main campus and the modernization of others.

BASIC FINANCIAL STATEMENTS

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	District	Imperial Valley College Foundation
ASSETS		
Current assets:		
Cash in county treasury	\$ 29,517,182	\$ -
Cash in banks	-	396,338
Cash with fiscal agent	1,949,218	-
Investments	-	1,393,972
Revolving cash	20,000	-
Accounts receivable, net	4,992,888	15,265
Total current assets	36,479,288	1,805,575
Non-current assets:		
Capital assets, net of accumulated depreciation	6,449,117	15,000
TOTAL ASSETS	\$ 42,928,405	\$ 1,820,575
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,899,317	\$ 19,078
Deferred revenues	518,819	-
Compensated absences	541,986	-
Leases payable - current portion	44,156	-
Bonds payable - current portion	190,000	-
COPS payable - current portion	250,000	-
Total current liabilities	5,444,278	19,078
Non-current liabilities:		
Leases payable	64,091	-
Bonds payable	27,315,000	-
COPS payable	3,250,000	-
Total non-current liabilities	30,629,091	-
TOTAL LIABILITIES	36,073,369	19,078
NET ASSETS		
Invested in capital assets, net of related debt	2,840,870	15,000
Restricted	2,824,511	1,718,600
Unrestricted	1,189,655	67,897
TOTAL NET ASSETS	6,855,036	1,801,497
TOTAL LIABILITIES AND NET ASSETS	\$ 42,928,405	\$ 1,820,575

See the accompanying notes to the financial statements

IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2005

	District	Imperial Valley College Foundation
OPERATING REVENUES		
Tuition and fees	\$ 2,202,989	\$ -
Grants and contracts, non-capital:		
Federal	11,582,859	-
State	5,507,467	-
Local	412,009	485,713
Sales and Commissions	156,807	-
TOTAL OPERATING REVENUES	19,862,131	485,713
OPERATING EXPENSES		
Academic salaries	13,834,397	-
Classified salaries	7,378,184	82,244
Employee benefits	6,763,610	26,545
Supplies, materials and other operating expenses	7,133,531	203,781
Financial aid	9,935,430	-
Utilities	581,691	-
Interest and fiscal charges	179,089	-
Depreciation	290,508	-
TOTAL OPERATING EXPENSES	46,096,440	312,570
OPERATING LOSS	(26,234,309)	173,143
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	19,862,154	-
Local property taxes	3,914,894	-
State taxes and other revenue	925,610	-
Interest and investment income	544,801	46,498
TOTAL NON-OPERATING REVENUES (EXPENSES)	25,247,459	46,498
INCREASE IN NET ASSETS	(986,850)	219,641
NET ASSETS, BEGINNING OF YEAR	8,002,191	1,581,856
PRIOR YEAR ADJUSTMENT	(160,305)	-
NET ASSETS, END OF YEAR	\$ 6,855,036	\$ 1,801,497

See the accompanying notes to the financial statements

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
JUNE 30, 2005**

	District	Imperial Valley College Foundation
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 2,202,989	\$ -
Federal grants and contracts	11,582,859	-
State grants and contracts	5,507,467	-
Local grants and contracts	412,009	485,713
Sales and commissions	156,807	-
Payments to suppliers	(6,920,637)	(73,158)
Payments to/on behalf of employees	(27,976,191)	(108,879)
Payments to/on behalf of students	(9,935,430)	(110,368)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(24,970,127)	193,308
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State apportionment and receipts	19,862,154	-
Property taxes	3,914,894	-
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	23,777,048	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(519,402)	-
Retirement of capital assets	1,727,583	-
Proceeds from sale of bonds	24,500,000	-
Principal paid on capital debt	(185,000)	-
Interest paid on capital debt	(179,089)	-
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	25,344,092	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	-	20,252
Interest on investments	544,801	46,498
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	544,801	66,750
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,695,814	260,058
CASH BALANCE, BEGINNING OF YEAR	6,790,586	136,280
CASH BALANCE, END OF YEAR	\$ 31,486,400	\$ 396,338
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (26,234,209)	\$ 173,143
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	290,508	-
Changes in assets and liabilities:		
Receivables, net	(1,945,232)	12,507
Accounts payable	2,735,351	7,658
Deferred revenues	137,276	-
Compensated absences	46,179	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (24,970,127)	\$ 193,308

See the accompanying notes to the financial statements

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005**

	Associated Students Trust	Scholarship and Loan Trust	Campus Organizations	Totals
ASSETS				
Cash on hand and in banks	59,114	50,625	45,677	155,416
TOTAL ASSETS	<u>59,114</u>	<u>50,625</u>	<u>45,677</u>	<u>155,416</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS				
Unrestricted	59,114	50,625	45,677	155,416
TOTAL NET ASSETS	<u>59,114</u>	<u>50,625</u>	<u>45,677</u>	<u>155,416</u>
TOTAL LIABILITIES AND NET ASSETS	<u>59,114</u>	<u>50,625</u>	<u>45,677</u>	<u>155,416</u>

See the accompanying notes to the financial statements

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2005**

	Associated Students Trust	Scholarship and Loan Trust	Campus Organizations	Totals
REVENUES				
Interest and investment income	\$ 76	\$ 1,880	\$ -	\$ 1,956
Local revenues	85,615	360,148	82,141	527,904
TOTAL REVENUES	<u>85,691</u>	<u>362,028</u>	<u>82,141</u>	<u>529,860</u>
EXPENDITURES				
Classified salaries	2,551	-	-	2,551
Scholarships and loans	-	388,146	-	388,146
Other operating expenses	52,986	-	88,997	
Capital outlay	11,666	-	-	11,666
TOTAL EXPENDITURES	<u>67,203</u>	<u>388,146</u>	<u>88,997</u>	<u>544,346</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>18,488</u>	<u>(26,118)</u>	<u>(6,856)</u>	<u>(14,486)</u>
FUND BALANCES, BEGINNING OF YEAR	40,626	76,743	52,533	169,902
PRIOR YEAR ADJUSTMENTS	-	-	-	-
FUND BALANCES, END OF YEAR	<u>\$ 59,114</u>	<u>\$ 50,625</u>	<u>\$ 45,677</u>	<u>\$ 155,416</u>

See the accompanying notes to the financial statements

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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 is a political subdivision of the State of California and provides higher educational services in the County of San Diego, State of California. The District is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code 501 © 3, and is therefore exempt from federal and state income taxes. 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 District evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete.

GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District. Based on these criteria, the District has one component unit, the Imperial Valley Community College Foundation. In addition, the District is not a component unit of any reporting entity as defined by the GASB statement. The Imperial Valley Community College Foundation also issues a separate audited financial report which can be obtained from the District or the Foundation.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(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, 2005
(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, 2005
(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, 2005
(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 \$703,264.

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, 2004 were decreased \$340,957 for the cumulative effect of these changes on years prior to the fiscal year ended June 30, 2005.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(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 (\$29,517,182 as of June 30, 2005).

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 for all fund types (\$155,416 as of June 30, 2005) 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, 2005
(Continued)

NOTE 2 - CASH AND INVESTMENTS (Continued)

Cash With Fiscal Agent (Continued)

The District's investments at June 30, 2005 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	\$ -	\$ 260,127	\$ -	\$ 260,127	\$ 260,127
U.S. Treasury Obligations	-	1,689,091	-	1,689,091	1,689,091
Totals	<u>\$ -</u>	<u>\$1,949,218</u>	<u>\$ -</u>	<u>\$1,949,218</u>	<u>\$1,949,218</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, 2005 consists of the following:

Federal	\$ 550,009
State	3,239,076
Local	1,028,441
Interest	<u>175,362</u>
Total	<u>\$ 4,992,888</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, 2005
(Continued)

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2004</u>	<u>Net Change in Capital Assets</u>	<u>Balance June 30, 2005</u>
<u>Capital Assets</u>			
Land	\$ 175,900	\$ -	\$ 175,900
Site Improvements	441,018	108,270	549,288
Buildings	13,536,825	(624,864)	12,911,961
Equipment	<u>1,791,493</u>	<u>(308,986)</u>	<u>1,482,507</u>
Total Cost	15,945,236	(825,580)	15,119,656
<u>Accumulated Depreciation</u>			
Site Improvements	(433,830)	(321)	(434,151)
Buildings	(7,601,995)	185,884	(7,416,111)
Equipment	<u>(815,211)</u>	<u>(5,066)</u>	<u>(820,277)</u>
Total Accumulated Depreciation	(8,851,036)	180,497	(8,670,539)
Net Capital Assets	<u>\$ 7,094,200</u>	<u>\$ (645,083)</u>	<u>\$ 6,449,117</u>

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.

In January 2005, the District authorized the sale and issuance of General Obligation Bonds, Election of 2004, Series 2005 in the amount of \$24,500,000. Proceeds from the sale of the bonds will be used to finance the addition and modernization of college facilities for the District. Interest is payable February 1 and August 1, commencing August 1, 2005 at rates ranging from 3.30% to 7.00%. Principal is payable August 1, commencing August 1, 2006 and through the maturity date August 1, 2029.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

NOTE 6 - BONDS PAYABLE (Continued)

The annual requirements to amortize bonds payable outstanding as of June 30, 2005 is as follows:

Year Ending June 30,	Principal	Interest	Total
2006	190,000	1,323,375	1,513,375
2007	710,000	1,287,726	1,997,726
2008	845,000	1,241,912	2,086,912
2009	955,000	1,187,054	2,142,054
2010	560,000	1,141,654	1,701,654
2011-2015	4,090,000	5,193,749	9,283,749
2016-2020	3,525,000	4,375,459	7,900,459
2021-2025	5,880,000	3,459,555	9,339,555
2026-2030	10,750,000	1,459,750	12,209,750
Totals	<u>27,505,000</u>	<u>20,670,234</u>	<u>48,175,234</u>

NOTE 7 - COPS PAYABLE

In June 2005, the District issued Certificates of Participation in the amount of \$3,500,000 to finance construction of certain new projects and other improvements to school facilities within the District. Interest is payable on February 1 and August 1 of each year commencing February 1, 2005 at rates ranging from 2.50-4.85%. Principal is payable on August 1 of each year, commencing August 1, 2005 and through the maturity date August 1, 2014.

The outstanding debt of the District as of June 30, 2005 is as follows:

Date of Issuance	Interest Rate	Maturity Date	Amounts Original Issue	Amounts Outstanding July 1, 2004	Issued Current Year	Redeemed Current Year	Amounts Outstanding June 30, 2005
2004	2.5-4.85%	2014	<u>\$3,500,000</u>	<u>\$ -</u>	<u>\$3,500,000</u>	<u>\$ -</u>	<u>\$3,500,000</u>

The annual requirements to amortize COPS payable outstanding as of June 30, 2005 are as follows:

Year Ending June 30	Principal	Interest	Total
2006	250,000	141,169	391,169
2007	280,000	127,669	407,669
2008	290,000	119,819	409,819
2009	295,000	110,454	405,454
2010	305,000	99,720	404,720
2011-2015	<u>2,080,000</u>	<u>282,622</u>	<u>2,362,622</u>
Totals	<u>3,500,000</u>	<u>881,453</u>	<u>4,381,453</u>

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

NOTE 8 - 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 Payments
2006	\$ 50,017
2007	43,775
2008	23,885
Total Minimum Payments	117,677
Less Interest Portion	(9,430)
Total Present Value Payments	\$ 108,247

NOTE 9 - GENERAL LONG-TERM DEBT

Long-Term Debt Summary

A schedule of changes in long-term debt for the year ended June 30, 2005 is shown below:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Balance In One Year
Bonds Payable	\$ 3,190,000	\$24,500,000	\$ 185,000	\$27,505,000	\$ 190,000
COPS Payable	3,500,000	-	-	3,500,000	250,000
Capital Leases	198,935	-	90,688	108,247	44,156
Totals	\$ 6,888,935	\$24,500,000	\$ 275,688	\$31,113,247	\$ 484,156

NOTE 10 - PRIOR YEAR ADJUSTMENTS

Prior year adjustments represents adjustments to prior year accounts receivable for the difference between the amounts of accounts receivable estimated and accrued at June 30, 2004 and the actual amounts of accounts receivable subsequently collected in fiscal year 2004-05.

Additionally, prior year adjustments represents adjustments to prior year accounts payable for the difference between the amounts of accounts payable estimated and accrued at June 30, 2004 and the actual amounts of accounts payable subsequently paid in fiscal year 2004-05

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

NOTE 11 - 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 \$915,705 were recognized for retirees' health care benefits. The estimated cost for the 2005-06 fiscal year is \$976,206.

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 12 - DEFERRED REVENUE

Deferred revenue consists of state and local revenues that have been received as of June 30, 2005 for the subsequent 2005-06 fiscal year. As of June 30, 2005 the District's deferred revenue balance consists of the following:

	Governmental Funds
Federal revenues	\$ 8,417
State revenues	355,840
Local revenue	154,562
Total	\$ 518,819

NOTE 13 - 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.

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.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

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 14 - 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 2004-05 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, 2005, 2004, and 2003 were \$1,141,951, \$963,277 and \$941,633 respectively, and equal 100% of the required contributions for each year.

IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

NOTE 14 - 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 2004-05 was 9.952% 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, 2005, 2004, and 2003 were \$604,613 \$544,634, and \$147,652, respectively, and equal 100% of the required contributions for each year.

NOTE 15- 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.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 16 - 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.

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, 2005 was not available

NOTE 17 - 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, 2005**

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mrs. Marian A. Long	President	November 2007
Mr. Carlos Acuna	Clerk	November 2005
Mr. Kelly Keithly	Member	November 2005
Mr. Romualdo J. Medina	Member	November 2007
Mr. Louis Wong	Member	November 2007
Mr. Rudy Cardenas, Jr.	Member	November 2007
Ms. Rebecca L. Ramirez	Member	November 2005

EXECUTIVE AND SENIOR ADMINISTRATION

Dr. Paul Pai
Superintendent/President

Mr. Thomas R. Hudson
Dean of Business Services

Dr. Kendra Jeffcoat
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, 2005**

	<u>Reported And Audited Annual FTES</u>
<u>Categories</u>	
Credit Full-Time Equivalent Student (FTES)	
Weekly Census	5,000.23
Daily Census	298.07
Actual Hours of Attendance	177.66
Independent Study/Work Experience	9.80
Summer Intersession	<u>560.11</u>
Total	<u><u>6,045.87</u></u>
Noncredit FTES	
Actual Hours of Attendance	-
Summer Session	<u>-</u>
Total	<u><u>-</u></u>
Credit Student Headcount	
Fall Session – 2004	8,069
Spring Session – 2005	<u>8,170</u>
Gross Square Footage	
Existing Facilities	<u>263,280</u>

**IMPERIAL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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. The fund balances for all funds as reported in the accompanying audited financial statements are in agreement with the revised fund balances reported by the District in their Annual Financial and Budget Report (CCFS-311).

**IMPERIAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

<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	-	\$ 8,310,990
Supplemental Educational Opportunity Grant	84.807	-	472,142
College Work Study	84.033	-	401,254
Upward Bound	84.047	-	583,975
Student Support Services	84.042	-	413,327
Talent Search	84.044	-	354,910
Tech Prep	84.048	-	20,195
Pell Administration	84.063	-	16,198
Title V ACCESO	84.031	-	268,005
Passed through California Department of Education (CDE)			
VATEA – Title I C	84.048	03577	376,260
Passed through Southwestern Community College District			
Small Business Administration	84.153	-	<u>131,098</u>
Total U.S. Department of Education			11,348,354
U.S. Department of Labor:			
Passed through National Retail Federation			
Workforce Investment Act	17.250	-	10,000
Passed through County of Imperial			
Workforce Investment Act	17.250	-	<u>79,446</u>
Total U.S. Department of Labor			89,446
U.S. Department of Housing and Urban Development			
Hispanic – SIAC	14.514	-	8,497
U.S. Department of Agriculture			
Nutrition Programs	10.555	-	<u>30,309</u>
Total Expenditures of Federal Awards			<u>\$11,476,606</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. 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, 2005**

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, 2005, and have issued our report thereon dated December 8, 2005. 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.

Wilkinson Hadley & Co., LLP

El Cajon, California
December 8, 2005



Wilkinson Hadley & Co. LLP
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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, 2005, and have issued our report thereon dated December 8, 2005. 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 May 2005 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 – Concurrent Enrollment of K-12 Students In Community College Courses
- Apportionments – Apportionment for Instructional Service Agreements/Contracts
- Apportionments – Enrollment Fees
- Open Enrollment
- Minimum Conditions – Standards of Scholarship
- Student Fees – Instructional Materials Fees and Health 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.

Wilkinson Hadley & Co., LLP

El Cajon, California
December 8, 2005



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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, 2005. 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, 2005.

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.

Wilkinson Hadley & Co., LLP

El Cajon, California
December 8, 2005

FINDINGS AND RECOMMENDATIONS

**IMPERIAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(Continued)**

Section II-Financial Statement Findings

**Finding 2005-1
Fixed Assets**

Criteria/Specific Requirements

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

Condition

In our original review of the fixed assets detail, we noted that the ending balances had not been updated from the prior year and new fixed asset additions and corresponding depreciation for the current year were not included. The District has not completed a proper fixed asset listing of capitalized assets since the appraisal report. New capitalized assets from the prior year and current year including depreciation had not been consolidated. As such, we had to determine all fixed asset additions from the general ledger system and the subsequent appraisal report and manually calculate depreciation.

Fixed asset additions to work in progress, buildings, and site improvements are not being monitored and categorized by construction project; therefore, the proper capitalization of these expenditures is not reflected at year-end under the current reporting method.

Questioned Costs

Not Applicable

Recommendation

We strongly recommend the District complete and consolidate a proper fixed asset listing and depreciation of all capitalized assets at year-end utilizing the current appraisal report and general ledger system. In addition, all capital outlay expenditures for buildings, work in progress, and site improvements need to be categorized by construction project for proper capitalization and reporting. Depreciation should be calculated and updated on an annual basis for all fixed assets including current year additions and deletions.

District Response

Based on the recommendation from the auditor and in accordance with our current plan, Imperial Valley College will increase the priority of the activation of the Asset Inventory Automation Program in the Banner System. The Director of Purchasing/Capital Projects will work directly with the Dean of Information Systems/Learning Services and the Director of Information Systems regularly until the activation is complete. The activation of the Asset Inventory Automation Program will create a consolidated and proper fixed asset listing and depreciation of all capitalized assets for each fiscal year-end utilizing the current appraisal report and general ledger system. The Director of Purchasing/Capital Projects will keep computerized records (if not in Banner, by use of Excel) of all capital outlay expenditures; buildings, work-in-progress, site improvements and any other items that fall under the criteria of capital outlay. This record keeping will be categorized by each individual construction or capital project. In addition with the activation of the Asset Inventory Automation Program, the district will be able to calculate depreciation and have an up-to-date account of all fixed assets. Depreciation reporting will be done on an annual basis to include all additions and deletions of fixed assets at the end of each fiscal year.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(Continued)**

**Findings 2005-2
Capital Projects Fund**

Criteria/Specific Requirements

Internal accounting and administrative controls should be sufficient to ensure the balance sheet and income statement for the Capital Projects and materially correct and reflect all transactions throughout the fiscal year.

Condition

In our review of the Capital Projects Fund, we noted a significant adjustment to the fund balance at year-end, upon further investigation, it became apparent that the transactions in the cash with fiscal agent accounts had been included in the fund.

Interest income, debt service, and county treasury transfers had not been properly recorded at year-end; therefore, this resulted in a significant adjustment to the Capital Projects Fund financial statements in the CCFS-311 report. The District has subsequently amended the CCFS-311 report to reflect the audit adjustments.

Questioned Costs

Not Applicable

Recommendation

Review and reconcile all financial transactions within the Capital Projects Fund at year-end to ensure all financial data is being reported. Consolidate and reconcile all interest income, debt service, and county treasury transfers in the cash with fiscal agent accounts to ensure the balances reported are mathematically correct.

District Response

Imperial Valley College's Director of Fiscal Services did not have a complete understanding of how to handle this type of transaction utilizing Banner, our new computer system. After discussing this finding with the auditor, IVC's Director of Fiscal Services has now an understanding of how to record transactions in the fiscal agent accounts within our system.

We will make sure that all income, debt service and expenses are properly reconciled between fiscal agent transactions and Imperial County Office of Education transactions. A revised CCFS-311 Annual Financial report has been submitted to the State Chancellor's Office showing the revised Capital Projects Fund financial data.

Section III – Federal Award Findings and Questioned Costs

No matters reported

**IMPERIAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(Continued)**

Section IV – State Award Findings and Questioned Costs

**Findings 2005-3
Fiscal Operations-Gann Limit Calculation**

Criteria/Specific Requirements

Internal accounting and administrative controls should be sufficient to ensure the Gann Appropriation Limit is materially correct.

Condition

In our review of the Gann Appropriation Limit calculation we noted a clerical error within the worksheet that caused the appropriations limit to be understated by \$1,669,453 in the supplemental data on Form CCFS-311. It appears that the price factor was not calculated correctly on the worksheet, which resulted in the understatement.

Questioned Costs

None. Appropriations subject to limit were calculated on the worksheet.

Recommendation

Revise the Gann Appropriation Limit schedule in Form CCFS-311 and corresponding worksheet and submit to the appropriate agencies. In future periods, review all calculations on the Gann Appropriation Limit and corresponding worksheet for accuracy prior to submission.

District Response

Imperial Valley College's Director of Fiscal Services will make sure that the price factor is included in the calculation of the appropriations limit. A revised CCFS-311 annual financial report has been submitted to the State Chancellor's Office showing the revised Gann Limit Calculation.

**IMPERIAL COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005**

<u>Finding and Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>2004-1 Financial Statements Reporting</p> <p>Fixed asset ending balances had not been updated from the prior year and new fixed assets and corresponding depreciation for the current year were not included. The District has not completed a proper fixed asset listing of capitalized assets since the appraisal report.</p> <p>Complete and consolidate a proper fixed asset listing of all capitalized assets and depreciation that is current.</p>	<p>Being Implemented</p>	<p>See Current Year Finding</p>