

**VICTOR VALLEY  
COMMUNITY COLLEGE**  
County of San Bernardino  
Victorville, California

**REPORT ON AUDIT**

**June 30, 2007**

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

June 30, 2007

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## TABLE OF CONTENTS

	Page
<b>INTRODUCTORY SECTION</b>	
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
<b>FINANCIAL STATEMENTS</b>	
Statement of Net Assets.....	13
Statement of Revenues, Expenses, and Changes in Net Assets.....	14
Statement of Cash Flows.....	15
Notes to Financial Statements.....	17
<b>SUPPLEMENTARY INFORMATION</b>	
Organization.....	31
Schedule of Expenditures of Federal Awards.....	32
Schedule of Workload Measures for Program-Based Funding.....	33
Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements.....	34
Note to Supplementary Information.....	35
<b>OTHER REPORTS</b>	
Report on Internal Control and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	36
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	38
Report on State Compliance.....	40
<b>FINDINGS AND QUESTIONED COSTS SECTION</b>	
Summary of Auditors' Results.....	42
Schedule of Current Year Findings and Questioned Costs.....	43
Status of Prior Year's Findings and Recommendations.....	45

## INTRODUCTORY SECTION

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Victor Valley Community College District  
Victorville, California

We have audited the accompanying financial statements of the business-type activities of the Victor Valley Community College District (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State 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 a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Victor Valley Community College District, as of June 30, 2007, and the respective changes in financial positions and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

- 1 -

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The Board of Trustees  
Victor Valley Community College District

Our audit was conducted for the purpose of forming an opinion on the District's financial statements. The accompanying information listed as *supplementary information* in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, consisting principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California

October 5, 2007

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

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### INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Victor Valley Community College District (the "District") for the year ended June 30, 2007. The discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

Victor Valley Community College District was established in 1961 and serves the County of San Bernardino and a small portion of the County of Los Angeles. Students in our college may complete the freshman and sophomore years of a baccalaureate degree and transfer to upper division study at a university or complete a certificated vocational program and move directly into the workforce.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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 Accountability Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with this recommendation and to report in a manner consistent with other California Community College Districts, the District has adopted the BTA reporting model for purposes of financial statement preparation and reporting.

### USING THIS ANNUAL REPORT

This annual report consists of the following sections:

- Management Discussion & Analysis (MD&A) utilizing a current year / prior year format
- District-wide Basic Financial Statements, including required notes to the financial statements
- Supplementary information, combining and individual fund financial statements
- Required Supplementary Information (RSI)

### DISTRICT-WIDE BASIC FINANCIAL STATEMENTS

The District-wide Basic Financial Statements are designed to provide the reader with a broad overview of the District's finances, in a manner similar to a private sector business.

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities, which are supported mainly by property taxes and by state apportionment as well as other revenues. This approach is intended to summarize and simplify the user's analysis of the costs of various District services to students and the public. This statement also shows how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods, e.g., earned but unused employee vacation balances.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2007

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### FINANCIAL HIGHLIGHTS

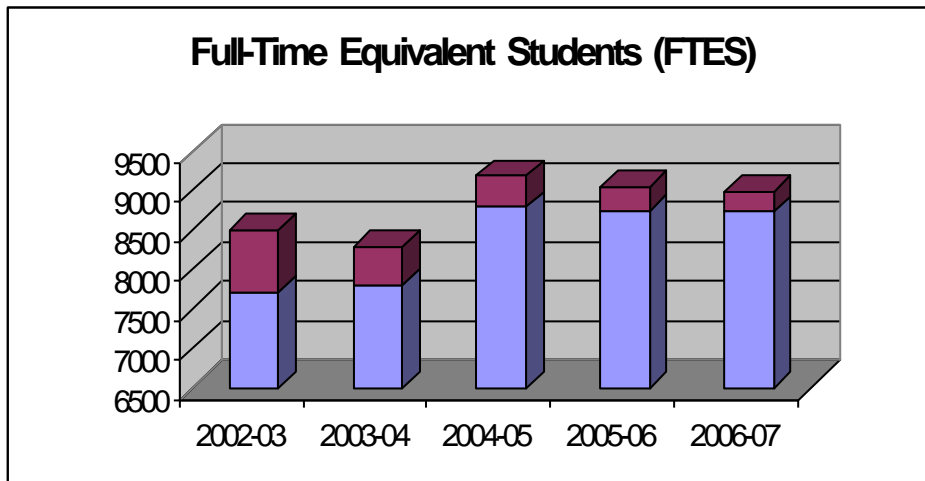
This section provides condensed information for each of the three basic financial statements, as well as illustrative charts and tables.

Of the 117 community colleges in California, Victor Valley Community College District has the ninth fastest growth rate in the State. This growth trend will continue into the 2007-08 fiscal year at a rate of 4.98%. Presently, the State provides funding for 75% of the college's anticipated growth. This level of funding continues to push the college staff to manage resources effectively and efficiently, and to make very prudent financial decisions. It is imperative that the college meet its growth targets because future funding is determined by the District's ability to grow to its target levels.

The District's primary funding is based upon an apportionment allocation made by the State of California Community Colleges Chancellor's Office. The primary basis for the Chancellor's apportionment calculation is the District's reporting of Full-Time Equivalent Students (FTES). Below is the District's five-year trend for FTES:

<u>Fiscal Year</u>	<u>Credit FTES</u>	<u>Non-Credit FTES</u>
2002-2003	7,713	793
2003-2004	7,801	487
2004-2005	8,782	398
2005-2006	8,745	304
2006-2007	8,729	258

### TREND OF FULL-TIME STUDENTS AS REPORTED ON THE CALIFORNIA COMMUNITY COLLEGES SIMULATED RECALCULATION



# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued  
June 30, 2007

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## FINANCIAL HIGHLIGHTS, Continued

Once the Chancellor's Office calculates the District's base apportionment, it reduces the net amount to be distributed by the amount of property taxes and enrollment fees expected to be paid directly to the District. During fiscal year 2006-2007, you will see property taxes decreased by \$1.3 million. This is due to a triple flip, whereby the state gives property tax revenue but then takes a portion of it back due to property tax shortfalls. This negative amount totaled \$4.9 million and is reported under Education Revenue Augmentation Funds (ERAF) in the Property Tax section of revenues. The matrix below lists the three components and illustrates the net effect of the changes. Overall, total apportionment increased by \$2,868,427.

	<u>2007</u>	<u>2006</u>	<u>Difference</u>
Property Tax Revenue	\$ 8,365,053	\$ 9,231,095	\$ -866,042
Tuition and Fees	2,776,000	4,032,126	-1,256,126
Apportionment	<u>33,950,000</u>	<u>28,959,405</u>	<u>4,990,595</u>
Totals	<u>\$ 45,091,053</u>	<u>\$ 42,222,626</u>	<u>\$ 2,868,427</u>

## SELECTED HIGHLIGHTS

- During fiscal year 2006-2007, total full-time equivalents students (FTES) decreased approximately 0.18% for credit courses and decreased 15.0% for non-credit courses.
- During 2006-2007 there was a decrease in non-credit courses, which represents an ongoing change in District goals to target credit courses over non-credit. As mentioned previously, credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment. Workload measures directly related to credit and non-credit FTES account for over 72 percent of the District's general state apportionment.

## 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, liabilities and net assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue 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.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued  
June 30, 2007

## STATEMENT OF NET ASSETS, Continued

	<i>(amounts in thousands)</i>	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
<b>ASSETS</b>				
Current assets		\$ 59,152	\$ 56,247	\$ 2,905
Non-current assets		<u>60,132</u>	<u>44,487</u>	<u>15,645</u>
<b>Total Assets</b>		<u><u>\$ 119,284</u></u>	<u><u>\$ 100,734</u></u>	<u><u>\$ 18,550</u></u>
<b>LIABILITIES</b>				
Current liabilities		\$ 7,525	\$ 8,408	\$ (883)
Non-current liabilities		<u>65,911</u>	<u>58,423</u>	<u>7,488</u>
<b>Total Liabilities</b>		<u><u>73,436</u></u>	<u><u>66,831</u></u>	<u><u>6,605</u></u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt		(1,660)	(10,173)	8,513
Restricted		982	1,515	(533)
Unrestricted		<u>46,526</u>	<u>42,561</u>	<u>3,965</u>
<b>Total Net Assets</b>		<u><u>45,848</u></u>	<u><u>33,903</u></u>	<u><u>11,945</u></u>
<b>Total Liabilities and Net Assets</b>		<u><u>\$ 119,284</u></u>	<u><u>\$ 100,734</u></u>	<u><u>\$ 18,550</u></u>

The difference between total assets and total liabilities 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. The District's net assets increased from last year by \$11,945,000 for the fiscal year ending June 30, 2007. The District currently has a 5.9% unrestricted reserve. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less accumulated depreciation.

The Net Assets are divided into three major categories. The first category, *invested in capital assets*, provides the equity amount in the property, plant and equipment owned by the District. The second category, *expendable restricted net assets*, are net assets 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 of the District.

- Approximately 16 percent of the cash balance and investments is cash deposited in the San Bernardino County Treasury Pool, and approximately 84 percent is cash deposited in guaranteed investment contracts. All funds are invested in accordance with Board Policy, which emphasizes prudence, safety, liquidity, and the return on investment. The Statement of Cash Flows contained within these financial statements provides greater detail regarding the sources and uses of cash.
- The majority of the accounts receivable balance, in the amount of \$9,763,443, is from federal and state sources for grant and entitlement programs.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued  
June 30, 2007

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## STATEMENT OF NET ASSETS, Continued

- Capital assets had a net balance of \$60.1 million. Depreciation expense of \$2.6 million was recognized against General Fund and Capital Outlay Fund revenues during 2006-2007. Debt liabilities in the amount of \$67.7 million have been recognized against the increase in capital assets.
- Accounts payable in the amount of \$5.22 million are amounts due as of the fiscal year-end for goods and services received as of June 30, 2007. Other current liabilities in the amount of \$501,554 related mainly to deferred revenues, and non-current liabilities in the amount of \$1.8 million for post retirement benefits and capital leases have been recognized for the year ended June 30, 2007.
- The District currently has \$52.95 million outstanding related to the issuance of the certificates of participation debt. Additional information regarding long term debt is included in the Debt Administration section of this discussion and analysis.
- The District's current investment in capital assets, net of related debt, is \$1.7 million. The district had planned to improve this investment -to-debt ratio by passing a Proposition 39 General Obligation Bond, which went before voters in 2006-07. This required a two-thirds vote but fell short by a very small margin. The District is looking into alternative options to address this ratio.
- The unrestricted net assets ending balance is related to recognizing depreciation on fixed assets in the amount of \$2.6 million, accrued post-employment benefits of \$7,106,947, and accrued vacation of \$1,890,506. The long-term goal to improve the unrestricted net assets balance includes the establishment of contingency reserves for post-employment benefits and vacation liabilities.

## 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.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued  
 June 30, 2007

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS, Continued

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006:

	<i>(amounts in thousands)</i>	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
<b>Revenues</b>				
Operating				
Tuition and fees		\$ 2,776	\$ 4,032	\$ (1,256)
Grant revenue		25,707	19,875	5,832
Other		<u>4,171</u>	<u>3,757</u>	<u>414</u>
Total operating revenue		32,654	27,664	4,990
Non-operating				
Apportionment and property taxes		41,933	38,191	3,742
Capital grants		15,272	3,151	12,121
Other		<u>4,691</u>	<u>5,151</u>	<u>(460)</u>
Total non-operating revenue		61,896	46,493	15,403
<b>Total Revenue</b>		94,550	74,157	20,393
<b>Expenses</b>				
Operating				
Salaries and benefits		51,352	40,021	11,331
Payments to students		13,498	12,109	1,389
Other		<u>12,547</u>	<u>14,157</u>	<u>(1,610)</u>
Total operating expenses		77,397	66,287	11,110
Non-operating		<u>5,208</u>	<u>1,624</u>	<u>3,584</u>
<b>Total Expenses</b>		82,605	67,911	14,694
<b>Excess</b>		<u>11,945</u>	<u>6,246</u>	<u>5,699</u>
<b>Net Assets - Beginning</b>		33,903	27,657	6,246
<b>Net Assets - Ending</b>		<u>\$ 45,848</u>	<u>\$ 33,903</u>	<u>\$ 11,945</u>

The schedule above has been prepared from the Statement of Revenues, Expenses, and Changes in Net Assets. State general apportionment, while budgeted for operations, is considered non-operating revenues, according to the Governmental Accounting Standards Board's (GASB) prescribed reporting format. Grants and contracts revenue includes student financial aid, as well as specific federal and state grants received for programs serving the students of the District.

Total Operating Revenues reflects a decrease in tuition and fees of \$1,256,000 from the previous year. This decrease is due to a slight reduction in the number of students at the District for the past year, and a state reduction in the enrollment fee from \$26 to \$20 per unit. Grants and contracts increase and decrease when grant period ends or when new grants are obtained by the District. Auxiliary sales and charges reflect increases in bookstore sales.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued  
 June 30, 2007

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS, Continued

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 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.

- Tuition and fees are generated by the resident, non-resident and foreign fees paid by the students attending Victor Valley Community College 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 program.
- 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 Auditor-Controller’s Office for San Bernardino and Riverside Counties. The amount received for property taxes is deducted from the total State general apportionment amount calculated by the State for the District.

Total operating expenses increased by \$11.1 million. The increase is comprised of three parts: 1) salaries and benefits increased by \$11.3 million resulting from step-and-column increases for all affected employees; 2) supplies, maintenance, payments to students, and other operating expense decreased by \$730,191 million; and 3) depreciation and amortization increased by \$509,276.

Operating expenses are 66.3% related to personnel costs. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, utilities and depreciation expense.

## EXPENDITURES BY ACTIVITY

Following is a table summarizing the District’s General Fund expenditures by activity, less debt service and transfers out:

<b>Functional classifications</b>	<u>Salaries and Benefits</u>	<u>Operating Expenses</u>	<u>Capital Outlay</u>	<u>Total</u>
Instruction	23,986,260	1,216,316	1,061,828	26,264,404
Academic support	2,479,480	407,871	144,028	3,031,379
Student services	6,854,026	1,311,073	467,653	8,632,752
Operation and maintenance of plant	2,168,523	2,040,036	63,500	4,272,059
Institutional support	8,205,518	3,904,093	1,204,529	13,314,140
Community services and economic development	211,035	112,378	10,552	333,965
Auxiliary operations	6,000	(6,000)	2,500	2,500
Student aid	-	-	537,764	537,764
Other outgo	-	-	-	-
	<u>43,910,842</u>	<u>8,985,767</u>	<u>3,492,354</u>	<u>56,388,963</u>

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued  
June 30, 2007

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## 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.

### Condensed Statement of Cash Flows For the Years Ended June 30, 2007 and 2006:

<i>(amounts in thousands)</i>	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
Cash used in operating activities	\$ (45,561)	\$ (33,187)	(12,374)
Cash provided by non-capital financing	41,487	39,408	2,079
Cash used by capital financing	(759)	(2,544)	1,785
Cash provided by investing activities	<u>3,094</u>	<u>1,582</u>	<u>1,512</u>
Total cash used	(1,739)	5,259	(6,998)
Cash - Beginning	<u>9,605</u>	<u>4,346</u>	<u>5,259</u>
Cash - Ending	<u>\$ 7,866</u>	<u>\$ 9,605</u>	<u>\$ (1,739)</u>

The primary operating activities contributing to cash flow are student tuition and fees and federal, state, and local grants and contracts, while the primary operating activity using cash flow throughout the year is the payment of salaries and benefits.

Even though State apportionment and property taxes are the primary source of non-capital related revenue (and cash flow), the new GASB accounting standards require that these sources of revenue be shown as non-operating revenue, since they come from general resources of the State and not from the primary users of the college's programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

Cash flow from operating activities decreased by \$1.7 million during fiscal year 2006-2007. The District collected almost \$1.26 million less in tuition and fees. Bookstore sales increased by \$92,302; payments to employees, in the form of salaries and benefits, increased by \$11.1 million; and payments for supplies and services decreased by \$730,191.

Cash flow from non-capital financing activities increased by \$2.1 million. This increase was comprised of a \$4.8 million increase in all base and categorical State apportionment payments and decreased cash receipts of property taxes.

The primary use included in capital and related financing activities is the purchase of capital assets (buildings, building improvements, and equipment). The increase in cash payments for capital projects is attributable to the Advanced Technology Center and the Speech / Drama addition projects, as well as funds from the Redevelopment Agencies (RDAs).

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued  
June 30, 2007

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## 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 these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## CAPITAL ASSETS

At June 30, 2007 the District had total capital assets of \$60.1 million consisting of land, buildings and building improvements, construction in progress, vehicles, data processing equipment and other office equipment. These assets have accumulated depreciation of \$25.9 million.

Capital additions consist primarily of replacement, renovation and new construction of facilities, as well as significant investments in equipment, including information technology. Current year additions were funded with a combination of special categorical, unrestricted general fund dollars, and capital outlay appropriations.

	<i>(amounts in thousands)</i>	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
Land and construction in progress		\$ 20,089	\$ 5,034	\$ 15,055
Buildings and equipment		65,896	62,678	3,218
Accumulated depreciation		<u>(25,853)</u>	<u>(23,225)</u>	<u>(2,628)</u>
<b>Total Capital Assets</b>		<u><u>\$ 60,132</u></u>	<u><u>\$ 44,487</u></u>	<u><u>\$ 15,645</u></u>

## DEBT

At June 30, 2007 the District had \$52,950,000 in debt related to the Certificates of Participation (COP) bonds. The COP bond was issued in 1997 to payoff 1994 and 1996 issues totaling \$45 million, and to fund various projects related to the construction, purchase and renovation of instructional and student facilities. Debt payments on the COP will be funded through the general fund receipts and investments over the term of the COP, unless a general obligation bond is approved by voters. See notes to the financial statements for additional information on long-term liabilities.

	<i>(amounts in thousands)</i>	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
Certificates of participation		\$ 52,950	\$ 53,250	\$ (300)
Capital leases		8,842	1,410	7,432
Other long-term liabilities		<u>5,922</u>	<u>2,858</u>	<u>3,064</u>
<b>Total Long-term Liabilities</b>		<u><u>\$ 67,714</u></u>	<u><u>\$ 57,518</u></u>	<u><u>\$ 10,196</u></u>

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2007

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## ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The Governor's Budget has, as expected, pointed to the deepening slump in the housing sector as the primary reason for the overall slowdown in the state and national economies. However, the Administration is not forecasting a recession. Jobs and incomes are expected to grow, but at a much slower rate. California personal income, a key barometer of the state's economic health, is forecast to increase .8% in 2008 and 5.2% in 2009. Employment growth slows significantly from the 1.4% range last year to 1% or less through 2009.

Community colleges in the state will be limited on the amount of growth for which they will be funded. It is projected that districts will only be funded for 1% growth. That means that any growth beyond that will not be funded by the state.

The next few years will be challenging as the state attempts to balance its budget. The District has been through this cycle over the years and will, no doubt, recover as it has. The District will look for other revenue sources that will help cushion these lean budget times at the state.

## FINANCIAL STATEMENTS

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# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## STATEMENT OF NET ASSETS

June 30, 2007

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### ASSETS

#### Current Assets:

Cash & cash equivalents	\$ 7,865,818
Investments	40,480,095
Accounts receivable	9,763,443
Inventories	905,036
Prepaid expenses	137,252
Total current assets	<u>59,151,644</u>

Fixed Assets, net 60,132,388

**TOTAL ASSETS** \$ 119,284,032

### LIABILITIES

#### Current liabilities:

Accounts payable	\$ 5,220,386
Deferred revenue	501,554
Current portion of long-term liabilities	<u>1,802,604</u>
Total current liabilities	7,524,544

Non-current liabilities, net 65,911,079

**TOTAL LIABILITIES** 73,435,623

### NET ASSETS

Invested in capital assets, net of related debt	(1,659,644)
Restricted net assets	981,783
Unrestricted net assets	<u>46,526,270</u>
<b>TOTAL NET ASSETS</b>	<u><u>45,848,409</u></u>

**TOTAL LIABILITIES AND NET ASSETS** \$ 119,284,032

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2007

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### OPERATING REVENUES

Tuition & fees	\$ 2,776,015
Grants and contracts, non-capital:	
Federal	15,912,904
State	8,632,723
Local	1,161,199
Auxiliary enterprise sales and charges	4,170,656
<b>TOTAL OPERATING REVENUE</b>	<u>32,653,497</u>

### OPERATING EXPENSES

Salaries	39,001,776
Employee benefits	12,349,775
Payments to students	13,497,736
Supplies, materials, and other operating expenses	9,918,843
Depreciation	2,627,945
<b>TOTAL OPERATING EXPENSES</b>	<u>77,396,075</u>

**OPERATING LOSS** (44,742,578)

### NON-OPERATING REVENUES/(EXPENSES)

State apportionment, non capital	33,736,303
Local property taxes	8,196,949
Other outgo	(4,213,543)
Interest expense	(994,402)
Investment income	3,552,853
Other revenue	1,138,053
<b>TOTAL NON-OPERATING REVENUES/(EXPENSES)</b>	<u>41,416,213</u>

### OTHER REVENUES

State revenue, capital	<u>15,271,915</u>
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NET INCREASE IN NET ASSETS 11,945,550

**Net assets - beginning** 33,902,859

**Net assets - ending** \$ 45,848,409

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2007

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### Cash flows from operating activities

Cash received from tuition and fees	\$ 2,976,364
Cash received from federal grants and contracts	15,839,486
Cash received from state grants and contracts	8,331,612
Cash received from local grants and contracts	520,495
Cash received from bookstore sales and charges	4,168,181
Cash payments to employees	(51,939,484)
Cash payments to suppliers	(11,959,962)
Cash paid to students	<u>(13,497,736)</u>

Net cash used in operating activities (45,561,044)

### Cash flows from non-capital financing activities

Cash received from state apportionments	33,493,873
Cash received from property tax	7,704,771
Other non-operating	<u>288,346</u>

Net cash provided by non-capital financing activities 41,486,990

### Cash flows from capital financing activities

Cash received from state	12,103,719
Cash payments for principal	(1,927,240)
Cash payments for interest	(2,261,718)
Cash paid for capital assets	<u>(8,674,200)</u>

Net cash used in capital financing activities (759,439)

### Cash flows from investing activities

Interest received	3,520,033
Investments purchased	<u>(425,799)</u>

Net cash from investing activities 3,094,234

NET CHANGE IN CASH (1,739,259)

Cash - Beginning 9,605,077

Cash - Ending \$ 7,865,818

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2007

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### Reconciliation of operating loss to cash used in operating activities

Operating loss	\$(44,742,578)
Depreciation	2,627,945

### Changes in assets and liabilities

Increase in accounts receivable	(951,934)
Increase in inventory	(65,774)
Decrease in prepaid expenses	613,181
Increase in accounts payable	(3,242,233)
Decrease in deferred revenue	<u>200,349</u>

Total changes in assets and liabilities	<u><u>\$(45,561,044)</u></u>
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# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Victor Valley Community College District (the “District”) conform to accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Victor Valley Community College District accounts for its financial transactions in accordance with the policies and procedures of the California State Chancellor’s Office Budget and Accounting Manual.

#### Financial Reporting Entity

The Victor Valley Community College District provides higher education in the County of San Bernardino, State of California.

The District and the Victor Valley Community College District Facilities Corporation (the “Corporation”) have a financial and operational relationship which meets the reporting entity definition criteria of the GASB Statement No. 14 for the inclusion of the Corporation as a component unit of the District. Accordingly, the basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit’s reporting entity for financial reports is the ability of the governmental unit’s elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the governmental unit’s power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2007, the financial activities of the Corporation have been blended into the financial statements of the District.

#### Basis of Presentation

The District is accounted for as a Business Type Activity, as defined by Governmental Accounting Standards Board (GASB) Statements No. 34/35, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*, and for Public Colleges and Universities, and its financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 20, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### Basis of Accounting – Measurement Focus

#### **Entity-Wide Financial Statements**

The entity-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The entity-wide statement of activities presents a comparison between operating revenues and operating expenses of the District. Revenues and expenses that are not classified as operating revenues or expenses are presented as non-operating revenues and expenses. Non-operating revenues and expenses include state apportionments, property taxes, interest and investment income, or expenses as these sources and uses of funds are derived from the general population and not from operations.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grants, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation.

#### **Revenues – Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include state apportionments, property taxes, certain grants, entitlements, and donations. Revenue from state apportionments is generally recognized in the fiscal year in which it is apportioned from the State. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

#### **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. Certain federal and state grants received before the eligibility requirements are met are recorded as deferred revenue.

#### **Expenses / Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. Allocations of costs, such as depreciation and amortization, are recognized in the entity-wide financial statements although they are not allocated in individual funds within the District’s financial records.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with County treasury balances for purposes of the statement of cash flows.

### Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Investments for which there are no quoted market prices are not material.

### Accounts Receivable

Accounts receivable are written off when they are determined to be uncollectible. The accounts receivable balances, as of June 30, 2007, do not include an allowance for doubtful accounts since any uncollectible portion is considered to be immaterial.

### Stores Inventory

Inventory consists of books, instructional materials, sundry items held for resale to students and staff of the College. Inventory is valued at cost utilizing the weighted-average method. Cost is recorded as an expense at the time the items are withdrawn from inventory and sold.

### Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land	N/A	Vehicles	8 years
Construction in progress	N/A	Infrastructure	25 to 65 years
Site improvements	20 years	Buildings	39 years
Machinery and equipment	5 to 20 years		

### Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements.

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 accumulate sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

### Accrued Liabilities and Long-Term Obligations

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

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### Net Assets

Net assets represent the residual interest in the District's assets after liabilities are deducted. In accordance with GASB Statements No. 34/35, the Fund Equity section on the Statement of Net Assets was combined to report total net assets and present it in three broad components: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted. Net assets invested in capital assets, net of related debt include capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net assets are restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the District. These revenues are student tuition and fees, federal, state, and local grants, and sales from the college bookstore. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District.

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments, on November 15 and on March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Bernardino bills and collects the taxes for the District. The District recognizes tax revenues when received.

### 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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the federal government. Financial aid to students is reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to students in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

## NOTE 2 – CASH AND INVESTMENTS

The District’s investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District’s name. Category 2 includes uninsured and unregistered investments for which the counterparty’s trust department or agent in the District’s name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution’s trust department or agent but not in the District’s name. Deposits with the county treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The fund is a voluntary program created by statute as an investment alternative. The deposits with county treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county treasurer. Cash and investments, as of June 30, 2007, are classified in the accompanying financial statements as follows:

	Category			Reported Amount	Fair Value
	1	2	3		
<b>Categorized</b>					
Guaranteed investment contract	\$ 40,480,095	\$ -	\$ -	\$ 40,480,095	\$ 40,480,095
Mutual funds	818,925	-	-	818,925	818,925
<b>Total</b>	<b>\$ 41,299,020</b>	<b>\$ -</b>	<b>\$ -</b>	<b>41,299,020</b>	<b>41,299,020</b>
<b>Uncategorized</b>					
Deposits with county treasurer					
Business Type Activities				6,595,689	6,595,689
				<b>\$ 47,894,709</b>	<b>\$ 47,894,709</b>

### Investments Authorized by the District’s Investment Policy

The District is authorized to make direct investments in local agency bonds; notes or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies/certificates of participation, obligations with first priority security; and collateralized mortgage obligations. The District’s investment policy does not contain any specific provisions intended to limit the District’s exposure to:

- interest rate risk
- credit risk
- concentration of credit risk.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

## NOTE 2 – CASH AND INVESTMENTS, Continued

### Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District’s investment policy. The table below identifies the *investment types* that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
Pre-refunded municipal obligations	None
State obligations	None
U.S. Treasury obligations	None
U.S. Agency securities	None
Banker’s acceptances	360 days
Commercial paper	270 days
Money market mutual funds	N/A
Investments contracts	30 years
County investment pool	None

### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the maturities in years:

<u>Investment Type</u>	<u>Total</u>	<u>&lt; 1</u>	<u>1 &gt;</u>
Guaranteed investment contract	\$ 40,480,095	\$ -	\$ 40,480,095
Money market funds	818,925	818,925	-
Cash in county	6,595,689	6,595,689	-
	<u>\$ 47,894,709</u>	<u>\$ 7,414,614</u>	<u>\$ 40,480,095</u>

Generally, the risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

### Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer that represent 5% or more of total investments and by reporting unit (primary government, discretely presented component unit, governmental activities, major fund, non-major funds in the aggregate, etc.) are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Credit Rating*</u>
Guaranteed investment contract	\$ 40,480,095	AA+
Money market funds	818,925	Not Rated
Cash in county	6,595,689	Not Rated
	<u>\$ 47,894,709</u>	

\* Rating by Standard and Poors

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

## NOTE 2 – CASH AND INVESTMENTS, Continued

### Custodial Credit Risk

#### **Deposits**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

#### **Investments**

The custodial risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

## NOTE 3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2007 consist of the following:

	General Fund	Bookstore Fund	Debt Service Fund	Capital Outlay Fund	Child Development Fund	Student Body Center Fee Fund	Internal Service Fund	Health Trust Fund	Total
Federal Government									
Categorical aid	\$ 761,816	\$ -	\$ -	\$ -	\$ 19,054	\$ -	\$ -	\$ -	\$ 780,870
State Government									
Apportionment	1,743,881	-	-	-	-	-	-	-	1,743,881
Categorical aid	-	-	-	4,251,453	70,890	-	-	-	4,322,343
Lottery	685,255	-	-	-	-	-	-	-	685,255
Interest	96,456		3,386	15,500	4,057	235	2,455	55	122,144
Other Local Sources	1,959,914	39,737	-	76,457	31,742	659	-	441	2,108,950
	<u>\$ 5,247,322</u>	<u>\$ 39,737</u>	<u>\$ 3,386</u>	<u>\$ 4,343,410</u>	<u>\$ 125,743</u>	<u>\$ 894</u>	<u>\$ 2,455</u>	<u>\$ 496</u>	<u>\$ 9,763,443</u>

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

## NOTE 4 – CAPITAL ASSETS

The following is a schedule of capital asset additions and deletions for the year ending June 30, 2007:

<b>Governmental Activities</b>	<u>Beginning Balance</u>	<u>Additions/ Adjustments</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 766,682	\$ -	\$ -	\$ 766,682
Construction in progress	4,267,036	15,055,464	-	19,322,500
				-
Land Improvements	5,198,811	41,994	-	5,240,805
Buildings	50,244,412	1,128,652	-	51,373,064
Equipment	7,234,977	2,047,273	-	9,282,250
Total	<u>67,711,918</u>	<u>18,273,383</u>	<u>-</u>	<u>85,985,301</u>
Less Accumulated Depreciation:				
Land Improvements	2,880,782	129,936	-	3,010,718
Buildings	15,090,693	1,653,403	-	16,744,096
Equipment	5,253,493	844,606	-	6,098,099
Total depreciation	<u>23,224,968</u>	<u>2,627,945</u>	<u>-</u>	<u>25,852,913</u>
Total Capital Assets, net	<u>\$ 44,486,950</u>	<u>\$ 15,645,438</u>	<u>\$ -</u>	<u>\$ 60,132,388</u>

## NOTE 5 – INTERFUND TRANSACTIONS

### Interfund Receivables/Payables (Due to/Due From)

Interfund receivables and payable balances consist of amounts owed between funds as a result of the time lag between the date that: (1) interfund goods and services are provided or reimbursable expenditures occur; (2) transactions recorded in the accounting system; and (3) payments between funds occur. These interfund transactions have been eliminated through consolidation within the entity-wide financial statements.

### Operating Transfers

Operating transfers between District are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, to finance various programs accounted for in other funds in accordance with budgetary authorizations. These operating transfers have been eliminated through consolidation within the entity-wide financial statements.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

## NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2007 consist of the following:

	General Fund	Bookstore Fund	Capital Outlay Fund	Child Development Fund	Cafeteria/Auxiliary Funds	Internal Service Fund	Federal/State Funds	Total Governmental Activities
Salaries and benefits	\$ 1,754,084	\$ -	\$ -	\$ 100,378	\$ -	\$ -	\$ -	\$ 1,854,462
Construction	-	-	1,535,035	-	-	-	-	1,535,035
Vendor payable	1,573,168	165,737	-	15,099	32,983	14,830	29,072	1,830,889
	<u>\$ 3,327,252</u>	<u>\$ 165,737</u>	<u>\$ 1,535,035</u>	<u>\$ 115,477</u>	<u>\$ 32,983</u>	<u>\$ 14,830</u>	<u>\$ 29,072</u>	<u>\$ 5,220,386</u>

## NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2007 consists of the following:

	General Fund	Bookstore Fund	Total Governmental Activities
Federal	\$ 115,604	\$ -	\$ 115,604
Tuition/Enrollment	230,219	-	230,219
Other	-	155,731	155,731
	<u>\$ 345,823</u>	<u>\$ 155,731</u>	<u>\$ 501,554</u>

## NOTE 8 – LONG-TERM DEBT

### Long-Term Debt Summary

A schedule of changes in long-term debt for the year ended June 30, 2007 is shown below:

	Beginning balance as of July 1, 2006	Additions/Adjustments	Deductions	Amount Due Within One Year	Long-Term Liability Balance
Compensated absences, net	\$ 1,321,651	\$ 1,500,000	\$ -	\$ 931,145	\$ 1,890,506
Post employment benefits, net	1,294,138	1,805,862	-	-	3,100,000
1997 Certificates of Participation	53,250,000	-	300,000	400,000	52,550,000
Capital leases	1,409,926	8,816,776	1,384,670	471,459	8,370,573
Early retirement	242,570	-	242,570	-	-
Total	<u>\$ 57,518,285</u>	<u>\$ 12,122,638</u>	<u>\$ 1,927,240</u>	<u>\$ 1,802,604</u>	<u>\$ 65,911,079</u>

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

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## NOTE 8 – LONG-TERM DEBT, Continued

### Compensated Absences

Accumulated unpaid employee vacation benefits as of June 30, 2007 are \$1,890,506 .

### Post-Employment Benefits

The District provides post-employment health care and other retirement benefits, in accordance with District employment contracts, for eligible employees who retire from the District on or after attaining age 50 for PERS and age 55 for STRS with at least 10 years of service until the retiree is eligible for Medicare at age 65. Currently, 12 faculty, 12 management and 13 classified employees meet these eligibility requirements. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis for retirees’ premiums. During the 2006-2007 fiscal year, the District paid \$0 for the 34 employees eligible for post-employment.

The total liability for the District at June 30, 2007, amounted to \$7,106,947 . This amount was calculated by an actuary in March of 2006.

### Certificates of Participation (COP)

#### **1997 Certificates of Participation**

On December 1, 1997, the District issued \$53,450,000 of Certificates of Participation (1997 Capital Improvement Refinancing Project). The certificates are due in installments beginning December 1, 2005 and continuing until December 1, 2028. They bear an adjustable interest rate as determined by the trust document. The interest rate at June 30, 2007 was 3.62%. Future interest due is calculated based on the interest rate in effect at June 30, 2007. The proceeds were used to refinance the 1994 and 1996 COPs and will be repaid through facilities lease payments, which approximate the required debt service.

Year ending June 30,	COP		
	Principal	Interest	Total
2008	\$ 400,000	\$ 1,923,330	\$ 2,323,330
2009	500,000	1,905,030	2,405,030
2010	600,000	1,883,070	2,483,070
2011	700,000	1,857,450	2,557,450
2012	800,000	1,828,170	2,628,170
2013 - 2017	6,450,000	8,516,820	14,966,820
2018 - 2022	13,750,000	6,542,250	20,292,250
2023 - 2027	20,000,000	3,339,750	23,339,750
	9,750,000	274,500	10,024,500
	<u>\$ 52,950,000</u>	<u>\$ 28,070,370</u>	<u>\$ 81,020,370</u>

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

## NOTE 8 – LONG-TERM DEBT, Continued

### Capital Leases

The District's liability on lease agreements with options to purchase is summarized below:

	<u>Vehicles</u>	<u>Computers and equipment</u>	<u>Relocatables</u>	<u>Energy Saving Equipment</u>	<u>Total</u>
Beginning Balance	\$ -	\$ 370,992	\$ 866,674	\$ 172,260	\$ 1,409,926
Additions and adjustments	31,342	1,904,915	-	6,880,519	8,816,776
Payments	<u>(5,418)</u>	<u>(897,927)</u>	<u>(423,905)</u>	<u>(57,420)</u>	<u>(1,384,670)</u>
Ending Balance	<u>\$ 25,924</u>	<u>\$ 1,377,980</u>	<u>\$ 442,769</u>	<u>\$ 6,995,359</u>	<u>\$ 8,842,032</u>

Year ending June 30,	<u>Lease payments</u>
2008	\$ 1,404,624
2009	954,739
2010	816,740
2011	623,905
2012	591,063
2013 - 2017	2,660,267
2018 - 2022	3,005,790
2023 - 2027	<u>2,850,721</u>
Subtotal	12,907,849
Less: amount representing interest	<u>(4,065,817)</u>
	<u>\$ 8,842,032</u>

## NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees may be member of the State Teachers' Retirement System (STRS) and classified employees may be members of the California Public Employees' Retirement System (CalPERS). Non-members may be members of the alternate retirement system.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

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## NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, Continued

### **PARS-ARS** (Public Agency Retirement System Alternate Retirement System)

#### Plan Description

The District contributes to the Public Agency Retirement System Alternate Retirement System (PARS-ARS), a defined contribution retirement plan administered by the District. PARS-ARS employs a corporate Trustee and Trust Administrator who receives and invests contributions to the Plan and manages the assets of the Trust. Contributions for the fiscal year 2006-2007 were \$79,184.

#### Funding Policy

Active plan members contribute 3.75% of their salary and the District contributes the equivalent 3.75%. Interest earnings on the plan investments minus administrative costs are credited to the members accounts monthly and accumulate tax-free until withdrawal.

### **PERS** (Public Employees' Retirement System)

#### Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS) as required by law; a cost-sharing multiple-employer public employee retirement system defined benefit pension administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

#### Funding Policy

Active plan members are required to contribute 7.0% 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 CalPERS Board of Administration. The required employer contribution rate for fiscal year 2006-2007 was 7.00% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ended June 30, 2007, 2006, and 2005 were \$1,007,566, \$893,015, and \$915,562, respectively, and equal 100 percent of the required contributions for each year.

### **STRS** (State Teachers' Retirement System)

#### Plan Description

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 and disability benefits 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 2006-2007 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, 2007, 2006, and 2005 were \$1,610,399, \$1,393,939, and \$1,294,564, respectively, and equal 100 percent of the required contributions for each year.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2007

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## NOTE 10 – COMMITMENTS AND CONTINGENCIES

### State and Federal Allowances, Awards and Grants

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

### Litigation

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. It is reasonably possible that the matter discussed in the foregoing paragraph could be decided unfavorably to the District and could require the District to pay damages or make other expenditures. Based on an estimate by legal counsel the potential liability could be up to \$500,000.

A former employee alleges slander, libel, and breach of contract. Should the plaintiff prevail in this matter, they would be entitled to all unmitigated back pay and benefits from the date of their termination to the date of judgment, plus an award of front pay, adjusted to present value, from the date of judgment to an anticipated retirement date, net of mitigation. In addition to back pay and front pay, the plaintiff could receive a punitive award for of an unknown amount plus attorney's fees.

### Operating Leases

The District leases certain office equipment under operating leases. These leases expire in accordance with contracts through 2008 as follows:

	<u>Lease Payment</u>
Year ending June 30,	
2008	\$ 6,996
2009	6,996
2010	6,996
	<u>\$ 20,988</u>

## NOTE 11 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Southern California Employees' Benefit Association (SCEBA), the State-Wide Association of Community Colleges (SWACC), Schools' Excess Liability Fund (SELF), and Protected Insurance Program for Schools (PIPS) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
 June 30, 2007

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## NOTE 11 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES , Continued

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. The District’s share of year-end assets, liabilities or fund equity has not been calculated. Audited financial statements are available from the respective entities.

	Southern California Schools Employee Benefit Association <u>(SCSEBA)</u>	State-Wide Association of Community Colleges <u>(SWACC)</u>	Schools’ Excess Liability Fund <u>(SELF)</u>
<b>Purpose:</b>	Provides health benefit coverage.	Provides general liability and property coverage.	Provides excess liability.
<b>Participants:</b>	Community colleges and school districts in Southern California.	Community college districts.	School districts and community colleges throughout the State.
<b>Governing board:</b>	A representative from member districts.	A representative from member districts.	Sixteen elected members from participating districts.

## NOTE 12 – RETIREE BENEFITS

The District provides a Tax Shelter Annuity Plan for all eligible employees, as defined in the Plan documents. Participants may contribute a portion of their earnings under a 403(b) plan, which has a maximum deferral limit of \$15,000 if under age 50, and \$20,000 if over age 50. The District will not make matching contributions to the Plan on behalf of participants. However, the District absorbs some costs associated with the administration of the Plan.

## NOTE 13 – FUTURE PRONOUNCEMENTS

Accounting principles have long held that the cost of retiree benefits should be “accrued” over employees’ working lifetime. For this reason, in 2004 the Government Accounting Standards Board (GASB) issued Accounting Standards 43 and 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees (including early retirees).

The District is required to implement these Standards for the fiscal year beginning July 1, 2007.

The fiscal impact on the District is significant. To fully implement these standards immediately, the District has already accrued an amount sufficient to be in compliance with the new standard.

Until the new standards take effect, GASB 12 currently requires the District to disclose the existence and/or cost of retiree health benefits. These costs are disclosed in Note 8.

## SUPPLEMENTARY INFORMATION

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# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## ORGANIZATION

For the Fiscal Year Ended June 30, 2007

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Victor Valley College is a public community college operated under the Education Code of the State of California. The Community College District was established by authority of the voters who created the District in 1960. The College began classes in 1961. The present campus was started in 1963 and opened its doors to students in 1965. The College District encompasses an area of approximately 2,200 square miles and includes the communities of Adelanto, Apple Valley, Cedar Springs, Helendale, Hesperia, Lucerne Valley, Oro Grande, Phelan, Wrightwood, Los Flores, and Victorville. The College is a part of a State-wide system of community colleges jointly supported by the State and Local districts and functioning under the advisory supervision of the State Board of Governors. The Board of Trustees is the governing body of Victor Valley Community College District, acting through the Superintendent / President of the District.

## BOARD OF TRUSTEES

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
JA Range	President	November 2007
Dennis Henderson	Vice-President	November 2009
Thomas M. Elder, II	Trustee	November 2007
Bettye Underhill, Ph.D.	Trustee	November 2009
Donald Nelson	Clerk	November 2009

## ADMINISTRATION

Lou Zellers	Interim Superintendent / President
Marianne Tortoric i	Executive Vice-President / Deputy Superintendent, Instruction
Bruce Baron	Vice-President, Administrative Services
Willard Lewallen, Ph.D.	Vice-President, Student Services

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. Dept. of Education:			
Title IV, Student Support TRIO	84.042A	*	\$ 287,509
Title V, Hispanic Serving [1]	84.031S	*	1,865,368
ASE Certified Mechanic Program			138,079
Vocational and Applied Technology Education Act:			
Title I - Part C	84.048	*	363,991
Title III - Part E Tech Prep	84.023	03578	15,000
Student Financial Aid Cluster [1]:			
Pell	84.007	*	8,902,918
SEOG	84.032	*	233,595
Federal Workstudy	84.063	*	258,369
Academic Competitiveness Grant (ACG)	84.375	*	19,450
Federal Family Education Loans	84.033	*	<u>3,395,374</u>
Total			<u>15,479,653</u>
U. S. Dept. of Health and Human Services:			
Temporary Assistance Needy Family	93.558	*	143,853
Corporation for National and Community Service:			
AmeriCorps Teach and Read Development Program	94.006	*	<u>45,704</u>
<b>Total Federal Expenditures</b>			<b><u><u>\$15,669,210</u></u></b>

\* Pass-through entity identifying number not applicable

[1] Major program

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF WORKLOAD MEASURES FOR PROGRAM-BASED FUNDING

For the Fiscal Year Ended June 30, 2007

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### Credit full-time equivalent student (FTES)

Weekly census	5,388
Daily census	1,032
Actual hours of attendance	273
Independent study/work experience	1,243
Summer intersession	<u>814</u>
Total credit FTES	8,750

### Non-credit FTES

Actual hours of attendance	273
Summer intersession	<u>24</u>
Total non-credit FTES	297

TOTAL FULL TIME EQUIVALENT STUDENTS 9,047

### Basic skills

Credit	450
Non-credit	<u>50</u>

TOTAL BASIC SKILLS 500

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## Reconciliation of Annual Financial and Budget Report with Audited Financial Statements For the Fiscal Year Ended June 30, 2007

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There were adjustments to the Annual Financial and Budget Reports (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2007.

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Child Development Fund</u>	<u>Capital Outlay Fund</u>	<u>Cafeteria/ Auxiliary Funds</u>
FUND BALANCE					
Balance, June 30, 2007 Unaudited Actuals	\$ 3,812,887	\$ 40,660,930	\$ 353,862	\$ 1,514,870	\$ 205,247
Decrease in:					
Accounts receivable	(370,518)	-	-	-	-
Due from other funds	(128,478)	-	-	(32,335)	-
Accounts payable	-	91,606	-	-	-
Increase in:					
Due from other funds	-	-	-	-	10,134
Due to other funds	-	-	-	-	(68,122)
Audited Financial Statements	<u>\$ 3,313,891</u>	<u>\$ 40,752,536</u>	<u>\$ 353,862</u>	<u>\$ 1,482,535</u>	<u>\$ 147,259</u>
	<u>Bookstore Fund</u>	<u>Student Body Center Fee Fund</u>	<u>Self-Insurance Fund</u>	<u>Associated Student Body Fund</u>	<u>Health Trust Fund</u>
FUND BALANCE					
Balance, June 30, 2007 Unaudited Actuals	\$ 957,839	\$ 8,170	\$ 205,497	\$ 109,586	\$ 19,313
Audited Financial Statements	\$ 957,839	\$ 8,170	\$ 205,497	\$ 109,586	\$ 19,313

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2007

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### NOTE 1 – PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of State, 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.

#### Schedule of Workload Measures for Program-Based Funding

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students throughout the District.

#### Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

## OTHER REPORTS

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**REPORT ON INTERNAL CONTROL AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Trustees  
Victor Valley Community College  
Victorville, California

We have audited the financial statements of Victor Valley Community College District (the "District") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

The Board of Trustees  
Victor Valley Community College District

Compliance and Other Matters

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

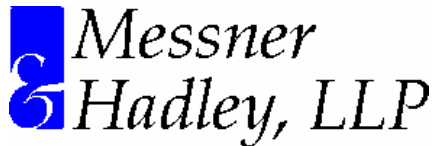
This report is intended solely for the information and use of management, the Governing Board, others within the District, the federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California

October 5, 2007



Certified Public Accountants

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

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

The Board of Trustees  
Victor Valley Community College District  
Victorville, California

Compliance

We have audited the compliance of Victor Valley Community College District (the "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, 2007. 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 non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the 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, 2007.

Internal Control Over Compliance

The management of Victor Valley Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

- 38 -

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10670 Civic Center Drive, Suite 110 \* Rancho Cucamonga \* California 91730-7653  
(909) 466-0900  
messnerandhadley.com

The Board of Trustees  
Victor Valley Community College District

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

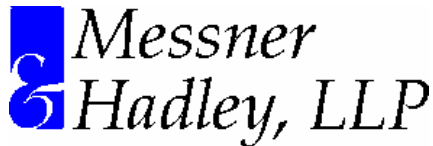
This report is intended for the information and use of management, the Governing Board, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California

October 5, 2007



Certified Public Accountants

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

## REPORT ON STATE COMPLIANCE

The Board of Trustees  
Victor Valley Community College District  
Victorville, California

We have audited the basic financial statements of Victor Valley Community College District (the "District") for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual*:

### General Directives

Management Information System Implementation :  
-- Required Data Elements

### Administration

Fiscal Operations:

- Salaries of Classroom Instructors (50 Percent Law)
- Gann Limit Calculation

Apportionments:

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

Open Enrollment

### Student Services

Matriculation :

- Uses of Matriculation Funds

### Special Programs

Extended Opportunity Programs and Services (EOPS):

- Allocation of Costs
- Administrator / Director Requirements

Disabled Student Program and Services (DSPS):

- Allocation of Costs

### Facilities

Scheduled Maintenance Programs

The Board of Trustees  
Victor Valley Community College District

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Based on our audit, we found that, except for Concurrent Enrollment and Scheduled Maintenance Programs, for the items tested, the District complied with the state laws and regulations of the state programs referred to above, except as described in the findings and recommendations section of this report. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the District had not complied with the state laws and regulations.

This report is intended solely for the information and use of management, the Governing Board, audit committee and others within the District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California

October 5, 2007

## FINDINGS AND QUESTIONED COSTS SECTION

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# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## SUMMARY OF AUDITORS' RESULTS

For the Fiscal Year Ended June 30, 2007

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### FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified not considered to be material weaknesses? Yes

Non-compliance material to financial statements notes? No

### FEDERAL AWARDS

Type of auditors' report issued on compliance for major programs : Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified not considered to be material weaknesses? Yes

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a): Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.007, 84.033, 84.032	Student Financial Aid Cluster
84.031S	Hispanic Serving Grant

Dollar threshold used to distinguish between Type A and Type B programs : \$ 470,076

Auditee qualified as low-risk auditee? Yes

### STATE AWARDS

Type of auditors' 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? Yes

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2007

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The following findings represent reportable conditions, and instances of non-compliance related to the financial statements that are required to be reported in accordance with government audit standards generally accepted in the United States of America. The findings have been coded as follows:

### INTERNAL CONTROL

#### 2007-01 Fixed Assets

##### Finding

A fixed asset listing is not maintained throughout the year, but rather compiled after the books are closed.

##### Recommendation

In order to better reconcile capital expenditures with the fixed asset listing, as soon as an invoice is paid out of the 6000 object code or out of the 8500 function the items on the invoice should be added to the fixed asset listing.

##### District Response

The District will comply with the recommendation and update its internal procedures to add new fixed assets on a continuous basis.

#### 2007-02 Deficit Cash

##### Finding

During the year, the Child Development Fund ran out of cash and in order to pay invoices a check was cut out of the revolving account and deposited into the Child Development Fund by passing board approval for inter-fund transfers.

##### Recommendation

Better budgeting practices need to be in place for the Child Development Fund to ensure cash requirements are met for the year, or foresee a cash deficit and plan for it accordingly.

##### District Response

The District will work with the staff of the Child Development Center to review budgets and cash flow requirements.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS, Continued For the Fiscal Year Ended June 30, 2007

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### BOOKSTORE

#### 2007-03 Accounts Payable

##### Finding

Bookstore maintains an accounts payable balance that is not reflected by any invoices, but rather a balance carried over from one year to the next. Through our subsequent disbursement testing, it appears the amount is overstated, albeit immaterial; we would rather not write off the individual accounts payable balances until they are supported by invoices or subsequent payments.

##### Recommendation

The Bookstore should go through all payments made from July 1<sup>st</sup> to the present, and determine which ones have invoices are attributed to prior fiscal year receipt of goods or services.

##### District Response

The District will work with the Bookstore staff to comply with this recommendation.

#### 2007-04 Deferred Revenue (VVC Card)

##### Finding

Bookstore maintains a deferred revenue account with actual cash to prepay a VVC Card. There is no control as to how old the money is or a tracking of activity to determine if the money needs to go back to the student once they have left or graduated.

##### Recommendation

The Bookstore needs to monitor student activity and age the accounts to determine if the student still attends the school, and if not return the money to the student, and if the student cannot be located, return the money to the State.

##### District Response

The District will work with the State Chancellor's Office and County legal counsel to determine the appropriate process for aged VVC cards.

### STATE COMPLIANCE

#### 2007-05 Scheduled Maintenance Programs

##### Finding

Districts are required to meet a calculated maintenance of effort with respect to scheduled maintenance. It was found there was no calculation done for the year, and therefore not determinate as to whether or not the District was in compliance with their required schedule of maintenance.

##### Recommendation

The District needs to perform a maintenance of effort calculation, in order to comply with the scheduled maintenance requirement by the state.

##### District Response

The District agrees with the finding and will perform a maintenance of effort calculation to comply with the scheduled maintenance requirement by the state.

# VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

## STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

For the Fiscal Year Ended June 30, 2007

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<u>Findings and Recommendations</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<b>2006-1 Required Data Elements</b> On one of fourteen census sheets tested, the instructor's signature was not present. The course was a credit course.  The District should review all census sheets to determine that the instructors have signed.	Implemented	
<b>2006-2 Concurrent Enrollment</b> The District does not have a system in which the principals involved certify that they have not recommended more students than allowed by the California Education Code.  The District should institute such a certification process.	Implemented	
<b>2006-3 Standards of Scholarship</b> The District is required to adopt and publish procedures for correction of grades that allow a student to challenge a grade alleged to be incorrect.  The District should adopt the procedure as required by Education Code and CCR.	Implemented	
<b>2006-4 Student Instructional Materials Fees</b> The District does charge this fee, but its fee policy and its catalog do not state the required policy.  The District should adopt the required fee policy or cease charging the fees for materials to students.	Implemented	
<b>2006-5 Non-Credit Courses</b> The District was notified by the Chancellor's Office that for non-credit where apportionment was claimed, it was required to perform a Self Assessment. The District did not perform the required Self Assessment.  The Self Assessment should be performed as soon as possible.	Implemented	
<b>2006-6 Separation of Duties</b> There is currently a lack of segregation of duties over the payroll function. The payroll function is currently being performed by employees that report to the human resource department.  The payroll department should be segregated from human resources by having fiscal services supervise this function.	Implemented	