

**Victor Valley Community College District**

**San Bernardino County  
Victorville , California**

**Report on Audit  
June 30, 2009**

**Victor Valley Community College District**

Table of Contents  
June 30, 2009

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<b>Independent Auditors' Report</b> .....	1
<b>Management's Discussion and Analysis</b> .....	3
<b>Basic Financial Statements</b>	
Statement of Net Assets .....	13
Statement of Revenues, Expenses, and Changes in Net Assets .....	14
Statement of Cash Flows .....	15
Statement of Fiduciary Net Assets.....	17
Statement of Changes in Fiduciary Net Assets.....	18
<b>Notes to Financial Statements</b> .....	19
<b>Required Supplementary Information</b>	
Schedule of Postemployment Healthcare Benefits Funding Progress.....	33
Schedule of Employer Contributions.....	34
Note to Required Supplementary Information.....	35
<b>Supplementary Information</b>	
History and Organization .....	36
Schedule of Expenditures of Federal Awards .....	37
Schedule of State Financial Awards.....	38
Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance.....	39
Reconciliation of Annual Financial and Budget Report with Audited Fund Balances .....	40
Note to Supplementary Information .....	41
<b>Other Independent Auditors' Reports</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i> .....	42
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	44
Report on State Compliance .....	46
<b>Findings and Recommendations</b>	
Schedule of Findings and Questioned Costs	
Section 1 – Summary of Auditors' Results.....	48
Section 2 – Financial Statement Findings.....	49
Section 3 – Federal Awards Findings.....	51
Section 4 – State Awards Findings.....	52
Status of Prior Year Findings and Questioned Costs.....	53

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Victor Valley Community College District

We have audited the accompanying financial statements of Victor Valley Community College District (the "District"), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of Victor Valley Community College District, as of June 30, 2009, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information, such as the management's discussion and analysis and the schedules of funding progress and employer contributions, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Board of Trustees  
Victor Valley Community College District

Our audit was conducted for the purpose of forming opinions on the District's basic financial statements. The supplementary sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information, including the schedule of expenditures of federal awards, have been subjected to the auditing procedures 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.

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California  
December 22, 2009

## Victor Valley Community College District

Management's Discussion and Analysis  
June 30, 2009

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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, 2009. 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

In June 1999, the Governmental Accounting Standards' Board (GASB) released Statement No. 34, "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments", which change the reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statement and Management's Discussion and Analysis for Public Colleges and Universities", which applies these reporting standards to public colleges and universities. The Victor Valley Community College District continues to present its financial statements in this reporting format.

The following discussion and analysis provides an overview of the financial position and activities of the District's Financial Report for the fiscal year ended June 30, 2009. The previous year's financial information is also provided for comparison. The annual report consists of three basic financial statements that provide information on the District as a whole: the *Statement of Net Assets*; the *Statement of Revenues, Expenses and Changes in Net Assets*, and the *Statement of Cash Flows*.

### BASIC FINANCIAL STATEMENTS

The 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 focus 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  
June 30, 2009

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## FINANCIAL HIGHLIGHTS

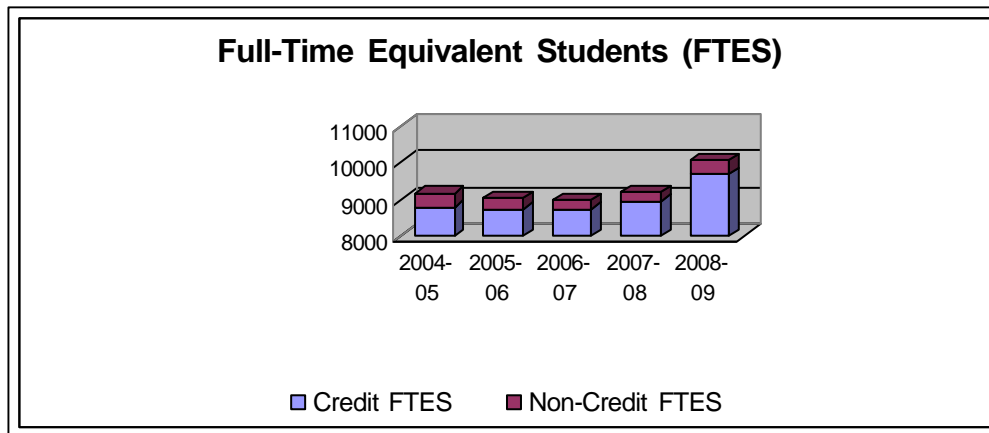
This section provides condensed information for each of the three basic financial statements, as well as illustrative charts and tables.

Of the 109 community colleges in California, Victor Valley Community College District is in the 62nd percentile in terms of growth in the State. The District has experienced a boom in growth; its enrollment exceeded 10,000 full-time equivalent students. This growth will mean an additional \$1 million received by the state in apportionment. The growth rate projected for 2009-10 is 3.15 percent. The challenge with this growth comes in terms of course management. The District has focused on obtaining better fill rates in the classrooms; this has been a successful endeavor, going from 60% fill rates to over 90%. 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>
2004-2005	8,928	389
2005-2006	8,746	303
2006-2007	8,596	207
2007-2008	8,946	265
2008-2009	9,689	375

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



## Victor Valley Community College District

Management's Discussion and Analysis  
June 30, 2009

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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. The matrix below lists the three components and illustrates the net effect of the changes. Overall, total apportionment increased by \$487,176.

	<u>2009</u>	<u>2008</u>	<u>Difference</u>
Property Tax Revenue	\$ 9,817,314	\$ 8,330,192	\$ 1,487,122
Tuition and Fees	2,856,533	3,076,552	(220,019)
Apportionment	<u>34,548,125</u>	<u>35,328,052</u>	<u>(779,927)</u>
Totals	<u>\$ 47,221,972</u>	<u>\$ 46,734,796</u>	<u>\$ 487,176</u>

### SELECTED HIGHLIGHTS

- During fiscal year 2008-2009, total full-time equivalents students (FTES) increased approximately 4.80% for credit courses and increased 41.51% for non-credit courses.
- As mentioned previously, credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment. Workload measure directly related to credit and non-credit FTES account for over 85 percent of the District's general fund budget.

## Victor Valley Community College District

Management's Discussion and Analysis  
June 30, 2009

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### 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.

	<i>(amounts in thousands)</i>	2009	2008	Net Change
<b>ASSETS</b>				
Current assets		\$ 114,313	\$ 22,762	\$ 91,551
Non-current assets		109,068	109,082	(14)
<b>Total Assets</b>		<u>\$ 223,381</u>	<u>\$ 131,844</u>	<u>\$ 91,537</u>
<b>LIABILITIES</b>				
Current liabilities		\$ 10,062	\$ 7,099	\$ 2,963
Non-current liabilities		149,766	64,137	85,629
<b>Total Liabilities</b>		<u>159,828</u>	<u>71,236</u>	<u>88,592</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt		21,418	16,639	4,779
Restricted		1,617	757	860
Unrestricted		40,518	43,212	(2,694)
<b>Total Net Assets</b>		<u>63,553</u>	<u>60,608</u>	<u>2,945</u>
<b>Total Liabilities and Net Assets</b>		<u>\$ 223,381</u>	<u>\$ 131,844</u>	<u>\$ 91,537</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 \$2,944,061 for the fiscal year ending June 30, 2009. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less accumulated depreciation.



## Victor Valley Community College District

Management's Discussion and Analysis  
June 30, 2009

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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 77 percent of the cash balance and investments is cash deposited in the San Bernardino County Treasury Pool. 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 \$12,075,058, is from federal and state sources for grant and entitlement programs.
- Capital assets had a net balance of \$81.2 million. Depreciation expense of \$3.4 million was recognized during 2008-2009.
- Accounts payable in the amount of \$9.45 million are amounts due as of the fiscal year-end for goods and services received as of June 30, 2009. Other current liabilities in the amount of \$381,228 related mainly to deferred revenues, and non-current liabilities in the amount of \$471,369 for general obligation bonds have been recognized for the year ended June 30, 2009.
- The District currently has \$137.6 million outstanding related to the issuance of general obligation 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 \$21.42 million.
- The unrestricted net assets ending balance is related to recognizing depreciation on fixed assets in the amount of \$3.4 million, accrued post-employment benefits of \$3.7 million, and accrued vacation of \$1.7 million. The long-term goal to improve the unrestricted net assets balance includes the establishment of contingency reserves for post-employment benefits and vacation liabilities.

**Victor Valley Community College District**

Management's Discussion and Analysis  
 June 30, 2009

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

Changes in total net assets as presented in 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.

<i>(amounts in thousands)</i>	<u>2009</u>	<u>2008</u>	<u>Net Change</u>
<b>Revenues</b>			
Operating			
Tuition and fees	\$ 2,856	\$ 3,077	\$ (221)
Grant revenue	34,026	26,129	7,897
Other	<u>4,759</u>	<u>4,787</u>	<u>(28)</u>
Total operating revenue	41,641	33,993	7,648
Non-operating			
Apportionment and property taxes	44,365	43,839	526
Capital grants	3,289	10,978	(7,689)
Other	<u>6,166</u>	<u>5,949</u>	<u>217</u>
Total non-operating revenue	53,820	60,766	(6,946)
<b>Total Revenues</b>	95,461	94,759	702
<b>Expenses</b>			
Operating			
Salaries and benefits	49,453	46,895	2,558
Payments to students	21,635	15,295	6,340
Other	<u>20,434</u>	<u>15,081</u>	<u>5,353</u>
Total operating expenses	91,522	77,271	14,251
Non-operating	<u>995</u>	<u>2,701</u>	<u>(1,706)</u>
<b>Total Expenses</b>	92,517	79,972	12,545
<b>Excess</b>	<u>2,944</u>	<u>14,787</u>	<u>(11,843)</u>
<b>Net Assets - Beginning</b>	60,608	45,821	14,787
<b>Net Assets - Ending</b>	<u>\$ 63,552</u>	<u>\$ 60,608</u>	<u>\$ 2,944</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.

## Victor Valley Community College District

Management's Discussion and Analysis  
June 30, 2009

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Total Operating Revenues reflects a decrease in tuition and fees of \$220,019 from the previous year, despite the fact that the District has seen another increase in the number of students coming to the college. This is due to the fact that more than half of the District's students qualify for the Board of Governor's Grant (BOGG), which waives their enrollment fees. 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.

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, including fees such as parking fees, community services classes and other related fees. As noted previously in this discussion and analysis, 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 Los Angeles 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 \$14,253,984. The increase is comprised of three parts: 1) salaries and benefits increased by \$2,560,525; 2) supplies, maintenance, payments to students, and other operating expenses increased by \$11,198,833; and 3) depreciation and amortization increased by \$494,536.

Operating expenses are 54.0% related to personnel costs. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, utilities and depreciation expense.

## Victor Valley Community College District

Management's Discussion and Analysis  
June 30, 2009

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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.

<i>(amounts in thousands)</i>	2009	2008	Net Change
Cash used in operating activities	\$ (43,477)	\$ (35,289)	\$ (8,188)
Cash provided by non-capital financing	43,210	43,141	69
Cash provided by capital financing	79,141	(13,894)	93,035
Cash provided by investing activities	6,949	11,849	(4,900)
Total cash provided by (used in)	85,823	5,807	80,016
Cash - Beginning	13,673	7,866	5,807
Cash - Ending	\$ 99,496	\$ 13,673	\$ 85,823

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 used operating activities decreased by \$8.2 million during fiscal year 2008-2009. The majority of the decrease is due to the District paying \$6.3 million more in payments to students.

Cash flow provided by non-capital financing activities increased by \$69,000 from 2007-2008. This was caused by \$3.86 million increase in apportionment, offset by a \$2.26 million decrease in property taxes, and a \$1.67 million decrease in other receipts.

The primary source of funds included in capital and related financing activities is the issuance of general obligation bonds.

## Victor Valley Community College District

Management's Discussion and Analysis  
June 30, 2009

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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, 2009 the District had total capital assets of \$111.8 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 \$32.2 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>2009</u>	<u>2008</u>	<u>Net Change</u>
Land and construction in progress	\$ 1,612	\$ 1,925	\$ (313)
Buildings and equipment	111,783	103,866	7,917
Accumulated depreciation	<u>(32,188)</u>	<u>(28,773)</u>	<u>(3,415)</u>
<b>Total Capital Assets</b>	<u>\$ 81,207</u>	<u>\$ 77,018</u>	<u>\$ 4,189</u>

### DEBT

At June 30, 2009 the District had \$150.2 million in total debt. The District was successful in passing a bond measure before the voters in November 2008. The general obligation bond was used in part to retire the outstanding certificates of participation debt. See notes to the financial statements for additional information on long-term liabilities.

<i>(amounts in thousands)</i>	<u>2009</u>	<u>2008</u>	<u>Net Change</u>
Certificates of participation	\$ -	\$ 52,550	\$ (52,550)
General obligation bonds	137,564	-	137,564
Capital leases	7,240	7,828	(588)
Other long-term liabilities	<u>5,434</u>	<u>4,847</u>	<u>587</u>
<b>Total Long-term Liabilities</b>	<u>\$ 150,238</u>	<u>\$ 65,225</u>	<u>\$ 85,013</u>

## **Victor Valley Community College District**

Management's Discussion and Analysis  
June 30, 2009

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### **ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE**

The 2009-10 state budget for community colleges included no COLA on general purpose apportionments and no growth funding statewide. District enrollment continues to grow reflecting the current economic condition of the state and the nation. Students appreciate the affordability of community colleges as they polish their skills or prepare for transfer to four year institutions.

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 always has. The District will look for other revenue sources that will help cushion these lean budget times at the state.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the: Office of Fiscal Services, Victor Valley Community College, 18422 Bear Valley Road, Victorville, California 92395-5850.

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*BASIC FINANCIAL STATEMENTS*

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**Victor Valley Community College District**

Statement of Net Assets  
June 30, 2009

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	<u>District</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 99,496,562
Accounts receivable	11,983,238
Internal balances	1,422,867
Stores inventory	930,613
Other assets	<u>479,802</u>
Total current assets	114,313,082
Non-current assets:	
Investments	27,860,586
Fixed assets, net	<u>81,207,135</u>
Total non-current assets	<u>109,067,721</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 223,380,803</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Current liabilities	\$ 9,209,245
Deferred revenue	381,231
Current portion of long-term debt	<u>471,369</u>
Total current liabilities	10,061,845
Non-current liabilities	<u>149,766,444</u>
<b>TOTAL LIABILITIES</b>	<u>159,828,289</u>
<b>NET ASSETS</b>	
Invested in capital assets	21,417,387
Restricted	1,617,319
Unrestricted	<u>40,517,808</u>
<b>TOTAL NET ASSETS</b>	<u>63,552,514</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 223,380,803</u></u>

See the accompanying notes to the financial statements.



## Victor Valley Community College District

### Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended June 30, 2009

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	<u>District</u>
<b>OPERATING REVENUES</b>	
Tuition and fees	\$ 2,856,533
Grants and contracts	
Federal	24,326,295
State	6,362,541
Local	3,337,923
Auxiliary enterprise sales and charges	<u>4,758,618</u>
<b>Total Operating Revenues</b>	41,641,910
<b>OPERATING EXPENSES</b>	
Salaries	39,901,474
Benefits	9,551,039
Payments to students	21,635,215
Supplies and materials	2,071,858
Other services and operating expenses	14,948,891
Depreciation	<u>3,414,799</u>
<b>Total Operating Expenses</b>	<u>91,523,276</u>
<b>OPERATING INCOME/(LOSS)</b>	(49,881,366)
<b>NON-OPERATING REVENUES/(EXPENSES)</b>	
State apportionments, non-capital	34,548,125
Local property taxes	9,817,314
State taxes and other revenues	157,665
Investment income - non-capital	2,764,238
Investment income - Capital	-
Interest expense - capital asset-related debt	(969,026)
Other non-operating revenues	3,244,544
Other non-operating expenses	<u>(26,143)</u>
<b>Total non-operating revenues</b>	<u>49,536,717</u>
<b>Income Before Other Revenues, Expenses, Gains, or Losses</b>	(344,649)
State apportionments, capital	<u>3,288,710</u>
<b>CHANGE IN NET ASSETS</b>	2,944,061
<b>NET ASSETS</b>	
<b>Net Assets - Beginning</b>	<u>60,608,453</u>
<b>Net Assets - Ending</b>	<u><u>\$ 63,552,514</u></u>

See the accompanying notes to the financial statements.

**Victor Valley Community College District**

Statement of Cash Flows  
For the Year Ended June 30, 2009

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	<u>District</u>
<b>Cash Flows from Operating Activities</b>	
Tuition and fees	\$ 2,838,134
Grants and contracts	33,289,974
Payments to suppliers	(13,174,194)
Payments to/on-behalf of employees	(49,560,989)
Student loans/grants	(21,635,215)
Auxiliary enterprise sales and charges	4,765,226
	<hr/>
Net cash provided by (used in) operating activities	(43,477,064)
<b>Cash Flows from Non-Capital Financing Activities</b>	
State apportionments and receipts	31,096,808
Property taxes	8,895,216
Other receipts (payments)	3,218,401
	<hr/>
Net cash provided by (used in) non-capital financing activities	43,210,425
<b>Cash Flows from Capital Financing Activities</b>	
State apportionments for capital purposes	3,288,710
Purchases of capital assets	(7,604,189)
Interest paid on capital debt	(969,026)
Proceeds from sale of general obligation bonds	137,563,981
Principal paid on capital debt	(53,138,492)
	<hr/>
Net cash provided by (used in) capital financing activities	79,140,984
<b>Cash Flows from Investing Activities</b>	
Proceeds from sales and maturities of investments	4,204,740
Interest on investments	2,744,222
	<hr/>
Net cash provided by (used in) investing activities	6,948,962
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	85,823,307
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	<hr/> 13,673,255
End of year	<hr/> <u>\$ 99,496,562</u>

See the accompanying notes to the financial statements.

## Victor Valley Community College District

Statement of Cash Flows  
For the Year Ended June 30, 2009

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	<u>District</u>
<b>Reconciliation of operating loss to cash used in operating activities</b>	
Operating loss	\$ (49,881,366)
Depreciation	3,414,799
Decrease in accounts receivable	(1,924,056)
Increase in inventory	747,228
Increase in accounts payable	3,629,096
Decrease in deferred revenue	(49,969)
Decrease in other liabilities	<u>587,204</u>
<b>Net cash used in operating activities</b>	<u><u>\$ (43,477,064)</u></u>

See the accompanying notes to the financial statements.

**Victor Valley Community College District**

Statement of Fiduciary Net Assets  
June 30, 2009

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	<b>Student Body Center Fee Fund</b>	<b>Health Trust Fund</b>	<b>Associated Student Body</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 17,516	\$ 15,680	\$ 249,379	\$ 282,575
Accounts receivable	1,696	167	5,708	7,571
Due from other funds		7,414	-	7,414
Total current assets	<u>19,212</u>	<u>23,261</u>	<u>255,087</u>	<u>297,560</u>
<b>TOTAL ASSETS</b>	<u>\$ 19,212</u>	<u>\$ 23,261</u>	<u>\$ 255,087</u>	<u>\$ 297,560</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 11,043	\$ -	\$ 52,116	\$ 63,159
<b>NET ASSETS</b>				
Due to student groups	8,169	-	202,971	211,140
Due to employees	<u>-</u>	<u>23,261</u>	<u>-</u>	<u>23,261</u>
<b>TOTAL NET ASSETS</b>	<u>8,169</u>	<u>23,261</u>	<u>202,971</u>	<u>234,401</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 19,212</u>	<u>\$ 23,261</u>	<u>\$ 255,087</u>	<u>\$ 297,560</u>

See the accompanying notes to the financial statements.

**Victor Valley Community College District**

Statement of Changes in Fiduciary Net Assets  
For the Year Ended June 30, 2009

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	<u>Student Body Center Fee Fund</u>	<u>Health Trust Fund</u>	<u>Associated Student Body</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Fees and receipts	\$ 104,043	\$ 22,752	\$ 179,405	\$ 306,200
<b>OPERATING EXPENSE</b>				
Services and activities	<u>104,044</u>	<u>62,310</u>	<u>115,770</u>	<u>282,124</u>
<b>CHANGE IN NET ASSETS</b>				
<b>NET ASSETS</b>	(1)	(39,558)	63,635	24,076
<b>Net Assets - Beginning</b>	<u>8,170</u>	<u>62,819</u>	<u>139,336</u>	<u>210,325</u>
<b>Net Assets - Ending</b>	<u>\$ 8,169</u>	<u>\$ 23,261</u>	<u>\$ 202,971</u>	<u>\$ 234,401</u>

See the accompanying notes to the financial statements.

## Victor Valley Community College District

Notes to Financial Statements  
June 30, 2009

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **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, 2009, the financial activities of the Corporation have been blended into the financial statements of the District.

#### **Financial Statement Presentation**

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

#### **Basis of Accounting**

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

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District’s basis financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

## **Victor Valley Community College District**

Notes to Financial Statements  
June 30, 2009

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For internal accounting purposes, the budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's Budget and Accounting Manual.

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

By state law, the District's Governing Board must approve a budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

The budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

In accordance with GASB Statement No. 20, the District follows all GASB statements issued prior to November 13, 1989 until subsequently amended, superseded or rescinded. The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after the application date.

### **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 in the County Treasury and investments in the Local Agency Investment Fund are recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

### **Accounts Receivable**

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

### **Inventories**

Inventories are presented at the lower of cost or market on an average basis and are expensed when used. Inventory consists of expendable instructional, custodial, health and other supplies held for consumption.

### **Restricted Cash and Cash Equivalents**

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

## Victor Valley Community College District

Notes to Financial Statements  
June 30, 2009

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### Capital Assets

Capital assets are recorded at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Interest incurred during construction is not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Land	Not Applicable
Construction in progress	Not Applicable
Site improvements	20 years
Machinery and equipment	5 to 20 years
Vehicles	8 years
Infrastructure	25 to 65 years
Buildings	39 years

### Accounts Payable

Accounts payable consists of amounts due to vendors.

### Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable, deferred summer pay and load banking.

### Deferred Revenue

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

### Compensated Absences

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

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



## Victor Valley Community College District

Notes to Financial Statements  
June 30, 2009

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### Net Assets

The District's net assets are classified as follows:

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

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

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

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

### State Apportionments

Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February 2010 will be recorded in the year computed by the State.

### Property Taxes

Secured property taxes attach as an enforceable lien on property on March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The District reports real and personal property tax revenues in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has been accrued in these financial statements to reflect the amount of property taxes receivable as of June 30, 2009.

### On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of Community Colleges in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments.

## Victor Valley Community College District

Notes to Financial Statements  
June 30, 2009

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### **Classification of Revenues**

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

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

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

### **Scholarship Discounts and Allowances**

Student tuition and fee revenues and certain other revenues from students are reported, net of scholarship discounts and allowances, in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance for the Board of Governors (BOG) waivers.

### **Estimates**

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

### **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.

**Victor Valley Community College District**

Notes to Financial Statements  
June 30, 2009

Cash and investments, as of June 30, 2009, are classified in the accompanying financial statements as follows:

<b>Business - Type Activities</b>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balances</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash on hand	\$ -	\$ -	\$ -	\$ -	\$ 75,250	N/A
Deposits in financial institutions	250,000	756,109	-	1,006,109	1,078,225	\$ 1,078,225
Cash in county treasury	-	98,343,087	-	-	98,343,087	98,343,087
Investments	-	-	27,860,586	N/A	27,860,586	27,860,586
Subtotal	<u>250,000</u>	<u>99,099,196</u>	<u>27,860,586</u>	<u>1,006,109</u>	<u>127,357,148</u>	<u>127,281,898</u>
<b>Fiduciary Funds</b>						
Cash on hand	-	-	-	-	250	N/A
Deposits in financial institutions	-	250,476	-	250,476	249,129	249,129
Cash in County	-	33,196	-	-	33,196	33,196
Subtotal	<u>-</u>	<u>283,672</u>	<u>-</u>	<u>250,476</u>	<u>282,575</u>	<u>282,325</u>
Total cash and investments	<u>\$ 250,000</u>	<u>\$ 99,382,868</u>	<u>\$ 27,860,586</u>	<u>\$ 1,256,585</u>	<u>\$ 127,639,723</u>	<u>\$ 127,564,223</u>

**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.

**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

## Victor Valley Community College District

Notes to Financial Statements  
June 30, 2009

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### **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. The District's sole investment matures on December 1, 2024.

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.) is the GIC and it is with Anchor Life Insurance Company.

### **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.

**Victor Valley Community College District**

Notes to Financial Statements  
June 30, 2009

**NOTE 3 – RECEIVABLES**

Receivables at June 30, 2009, consist of the following:

	Business-Type Activities	Fiduciary Funds	Total
Federal Government			
Categorical aid	\$ 608,270	\$ -	\$ 608,270
State Government			
Apportionment	5,561,388	-	5,561,388
Categorical aid	42,386	-	42,386
Lottery	704,558	-	704,558
Local Government			
Property taxes	2,638,666	-	2,638,666
Interest	120,567	214	120,781
Other Local Sources	2,307,403	91,606	2,399,009
	<u>\$ 11,983,238</u>	<u>\$ 91,820</u>	<u>\$ 12,075,058</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 01, 2008	Additions	Deductions	Balance June 30, 2009
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 766,682	\$ 200,000	\$ -	\$ 966,682
Construction in progress	1,158,263	5,758,304	6,271,445	645,122
Total capital assets not being depreciated	<u>1,924,945</u>	<u>5,958,304</u>	<u>6,271,445</u>	<u>1,611,804</u>
Capital assets being depreciated:				
Land improvements	6,157,622	77,176	-	6,234,798
Buildings and improvements	87,836,174	7,274,725	-	95,110,899
Furniture and equipment	9,872,180	565,429	-	10,437,609
Total capital assets being depreciated	<u>103,865,976</u>	<u>7,917,330</u>	<u>-</u>	<u>111,783,306</u>
Less accumulated depreciation:				
Land improvements	3,132,511	162,162	-	3,294,673
Buildings and improvements	18,626,633	2,434,372	-	21,061,005
Furniture and equipment	7,014,032	818,265	-	7,832,297
Total accumulated depreciation	<u>28,773,176</u>	<u>3,414,799</u>	<u>-</u>	<u>32,187,975</u>
<b>Capital Assets, net</b>	<u>\$ 77,017,745</u>	<u>\$ 10,460,835</u>	<u>\$ 6,271,445</u>	<u>\$ 81,207,135</u>

**Victor Valley Community College District**

Notes to Financial Statements  
June 30, 2009

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**NOTE 5 – INTERFUND TRANSACTIONS**

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when the interfund is transacted after the close of the fiscal year. Interfund activity within the government funds has been eliminated in the basic financial statements.

**NOTE 6 – ACCOUNTS PAYABLE**

Accounts payable at June 30, 2009 consisted of the following:

	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Payroll	\$ 1,202,521	\$ 15,813	\$ 1,218,334
Construction	3,782,858	-	3,782,858
Vendor payable	<u>4,223,865</u>	<u>222,469</u>	<u>4,446,334</u>
	<u>\$ 9,209,244</u>	<u>\$ 238,282</u>	<u>\$ 9,447,526</u>

**NOTE 7 – DEFERRED REVENUE**

Deferred revenue at June 30, 2009 consisted of the following:

	<u>Business-Type Activities</u>
State sources	\$ 87,280
Tuition and enrollment	133,074
VVC Cards	159,287
Other	<u>1,587</u>
	<u>\$ 381,228</u>

## Victor Valley Community College District

Notes to Financial Statements  
June 30, 2009

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### NOTE 8 – LONG-TERM LIABILITIES

#### Summary

A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below:

	Balance July 01, 2008	Additions	Deductions	Due in One Year	Long-term Balance
<b>Governmental Activities</b>					
Certificates of Participation	\$ 52,550,000	\$ -	\$ 52,550,000	\$ -	\$ -
General Obligation bonds	-	136,022,028	-	-	136,022,028
Bond Premium	-	1,541,953	-	-	1,541,953
Capital leases	7,828,240	-	588,492	471,369	6,768,379
Accumulated vacation	1,500,000	205,397	-	-	1,705,397
Other postemployment benefits	3,346,881	737,899	356,093	-	3,728,687
	<u>\$ 65,225,121</u>	<u>\$ 138,507,277</u>	<u>\$ 53,494,585</u>	<u>\$ 471,369</u>	<u>\$ 149,766,444</u>

#### Compensated Absences

Accumulated unpaid employee vacation benefits as of June 30, 2009 are \$1,705,397.

#### 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. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis for retirees' premiums.

The total liability for the District at June 30, 2009, amounted to \$3,346,881. This amount was calculated by an actuary in May of 2009.

#### General Obligation Bonds

**2008 General Obligation Bonds** – In an election held November 4, 2008, the voters provided the District with the ability to issue \$297,500,000 of General Obligation Bonds. The bonds were approved to finance the acquisition, construction, modernization and equipping of certain District property and facilities, as well as to refund all of the 1997 Variable Rate Certificates of Participation. The 2008 Series A bonds were issued for \$54,004,963 on June 17, 2009 with interest rates ranging from 3.00 percent to 5.25 percent; the bonds mature at various dates with a final maturity of August 1, 2031. The Series B bonds were issued for \$12,000,000 on June 17, 2009 with interest at 6.67 percent; the bonds mature August 1, 2033. The Series C bonds were issued for \$70,017,065 on June 17, 2009 with interest rates ranging from 3.17 percent to 7.20 percent; the bonds mature at various dates with a final maturity of August 1, 2044.

**Victor Valley Community College District**

Notes to Financial Statements  
June 30, 2009

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The annual requirement for the general obligation bonds outstanding at June 30, 2009 is as follows :

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ -	\$ 5,626,333	\$ 5,626,333
2011	-	8,413,664	8,413,664
2012	690,000	8,706,917	9,396,917
2013	862,254	8,928,722	9,790,977
2014	1,063,141	9,145,612	10,208,753
2015-2019	6,323,536	48,785,092	55,108,628
2020-2024	11,612,522	48,052,876	59,665,398
2025-2029	21,944,368	50,622,182	72,566,550
2030-2034	30,109,787	51,985,617	82,095,403
2035-2039	32,966,420	57,564,305	90,530,725
2040-2044	14,315,000	51,179,348	65,494,348
2045-2049	16,135,000	37,891,831	54,026,831
Total	<u>\$ 136,022,028</u>	<u>\$ 386,902,501</u>	<u>\$ 522,924,528</u>

**Capital Leases**

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

Year ending June 30,	Lease payments
2010	\$ 816,740
2011	623,905
2012	591,063
2013	536,739
2014	509,258
2015 - 2019	2,766,933
2020 - 2024	3,177,211
2025 - 2028	<u>1,526,638</u>
	10,548,487
Subtotal	<u>(3,308,739)</u>
Less: amount representing interest	<u>\$ 7,239,748</u>



## Victor Valley Community College District

Notes to Financial Statements  
June 30, 2009

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### NOTE 9 – EMPLOYMENT 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.

#### **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.

**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 2007-2008 was 9.3% 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, 2009, 2008, and 2007 were \$1,199,500, \$1,201,443, and \$1,007,566, 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 2007-2008 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, 2009, 2008, and 2007 were \$1,760,364, \$1,765,188, and \$1,610,399, respectively, and equal 100 percent of the required contributions for each year.

## Victor Valley Community College District

Notes to Financial Statements  
June 30, 2009

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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

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June, 30 2009.

#### Operating Leases

The District leases certain office equipment under operating leases. These leases expire in accordance with contracts through 2009 as follows:

Year Ending June 30,	Lease Payment
2009	\$ 18,029
2010	18,390
2011	5,608
2012	<u>5,608</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.

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.

**Victor Valley Community College District**

Notes to Financial Statements  
June 30, 2009

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The District participates in the following JPAs:

	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.

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*REQUIRED SUPPLEMENTARY INFORMATION*

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**Victor Valley Community College District**

Schedule of Postemployment Healthcare Benefits Funding Progress  
For the Year Ended June 30, 2009

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funding Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
March 1, 2009	\$ -	\$ 6,582,497	\$ 6,582,497	\$ -	\$ 39,901,474	16.50%

Note: Fiscal year 2008 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively; therefore, prior year comparative valuation data is not available. In future years, as valuations are performed, three year valuation trend information will be presented.

See the accompanying note to the required supplementary information.

**Victor Valley Community College District**

Schedule of Employer Contributions  
For the Year Ended June 30, 2009

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<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2009	<u>\$ 737,899</u>	51.74%	<u>\$ 356,093</u>

See the accompanying note to the required supplementary information.

**Victor Valley Community College District**

Note to Required Supplementary Information  
June 30, 2009

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**NOTE 1 – PURPOSE OF SCHEDULES**

**Schedule of Postemployment Healthcare Benefits Funding Progress**

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

**Schedule of Employer Contributions**

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

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*SUPPLEMENTARY INFORMATION*

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## Victor Valley Community College District

History and Organization  
June 30, 2009

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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.

<b>MEMBER</b>	<b>OFFICE</b>	<b>TERM EXPIRES</b>
Donald Nelson	President	November 2009
Angela Valles	Vice President	November 2011
Joe Range	Trustee	November 2011
Bettye Underhill, Ph.D.	Trustee	November 2009
Dennis Henderson	Clerk	November 2009

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### ADMINISTRATION

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Dr. Robert Silverman	Superintendent / President
Dr. Christopher O'Hearn	Deputy Superintendent/Executive Vice President, Instruction
GH Javaheripour	Vice-President, Administrative Services
Fusako Yokotobi	Vice-President, Human Resources

See accompanying note to supplementary information.

**Victor Valley Community College District**

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2009

Name of Agency / Grant / Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAM</b>			
Student Financial Aid Cluster [1]:			
<i>Federal Work Study</i>	84.033	*	\$ 257,972
<i>SEOG</i>	84.007	*	338,775
<i>Pell</i>	84.063	*	13,465,956
<i>Student Financial Aid Administrative Allowance</i>	84.033	*	373,763
ASE Certified Mechanics Program	*	*	176,937
Title IV Student Support Services	84.042A	*	187,975
Title IV Student Support Services - Type 2008	84.042A	*	81,146
Title IV Student Support Svcs/Student Grants	84.042A	*	30,000
Title IV TRIO: Upward Bound [1]	84.042A	*	580,503
Title V Hispanic - Serving Grant	10.223	*	1,632,117
<b>PASSED THROUGH CALIFORNIA DEPARTMENT OF EDUCATION</b>			
Temporary Assistance for Needy Families (TANF)	93.558	*	119,381
TANF/Child Development Careers Program	93.558	*	25,649
Title I - Part C	84.048	*	411,144
Title III-E Tech Prep	84.023	*	5,000
<b>U.S. DEPARTMENT OF VETERANS' AFFAIRS</b>			
Veterans Education	64.116	*	2,292
	<b>Total Federal Programs</b>		\$ 17,688,611

[1] Indicates Major Program

See accompanying note to supplementary information.

**Victor Valley Community College District**

Schedule of State Financial Awards – Grants  
For the Year Ended June 30, 2009

PROGRAM	Program Revenues				Program Expenditures
	Cash Received	Accounts Receivable (Payable)	Deferred Revenue	Total Revenue	
STATE					
GENERAL FUND and FINANCIAL AID					
Block Grant	\$ -	\$ -	\$ -	\$ -	\$ -
California Articulation Number System	4,000	-	-	4,000	4,000
Calworks	498,624	(39,857)	-	458,767	458,767
Cal Works - Placement-Incl above	-	-	-	-	-
CARE	333,435	-	-	333,435	313,566
Disabled Students Program And Services	795,295	-	-	795,295	761,503
Extended Opportunity Program and Services	1,024,814	-	-	1,024,814	974,871
CAHSEE #2 (High School Exit Exam) - Type 2008	395	118,260	-	118,655	118,655
CAHSEE #1 (High School Exit Exam) - Type 2008	103,069	-	-	103,069	103,069
State Deferred Maintenance	97,468	-	-	97,468	77,176
Foster Parent/FKCE	45,777	74,795	-	120,572	120,572
Foster Parent Independent Living Program	-	9,999	-	9,999	9,999
Instructional Equipment Replacement	97,459	-	-	97,459	90,930
Instructional Equipment Replacement - Type 2008	-	-	-	-	-
Lottery	616,757	584,806	-	1,201,563	1,090,784
Lottery - Type 2008	-	-	-	-	1,664
Matriculation, Credit	584,688	-	-	584,688	552,962
Matriculation, Noncredit	35,560	-	-	35,560	1,587
Basic Skills	148,312	-	-	148,312	95,896
Nursing Equipt Grant	112,966	-	-	112,966	112,966
Technology and Telecommunication Infrastructure	39,036	-	-	39,036	28,647
Staff Diversity	13,403	-	-	13,403	1,750
Staff Diversity - Type 2006	-	-	-	-	2,758
Staff Diversity - Type 2007	-	-	-	-	-
Staff Diversity - Type 2008	-	-	-	-	-
SB 1133	76,595	-	-	76,595	-
Song-Brown Nursing Grant	-	61,698	-	61,698	61,698
Nursing Capacity Grant	304,782	58,054	-	362,836	129,025
Nursing Capacity Grant - Type 2008	-	-	-	-	108,768
Nursing Recruitment & Retention	5,200	-	-	5,200	5,200
Career Exploration 7th & 8th	73,705	-	-	73,705	46,837
Career Exploration 7th & 8th - Type 2008	1,295	-	-	1,295	-
Career Pathways/SB 70	16,415	21,380	-	37,796	37,796
Associate Degree in Nursing	106,879	-	-	106,879	35,516
CHILD DEVELOPMENT					
Cal Works - Child Care-Incl in CalWorks above	-	-	-	-	-
Child Development Training Consortium	11,250	-	-	11,250	11,250
Child Development Mentor Teaching Program	-	1,000	-	1,000	1,000
Total	<u>\$ 5,147,179</u>	<u>\$ 890,136</u>	<u>\$ -</u>	<u>\$ 6,037,315</u>	<u>\$ 5,359,211</u>

See accompanying note to supplementary information.

**Victor Valley Community College District**

Schedule of Workload Measures for Program Based Funding  
For the Year Ended June 30, 2009

	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2008)			
1. Noncredit <sup>1</sup>	39.70		
2. Credit	46.85		
B. Summer Intersession (Summer 2009 - Prior to July 1, 2009)			
1. Noncredit <sup>1</sup>	-		
2. Credit	-		
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	6,394.70		
(b) Daily Census Contact Hours	1,674.63		
2. Actual Hours of Attendance			
(a) Noncredit <sup>1</sup>	335.67		
(b) Credit	126.73		
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	787.93		
(b) Daily Census Contact Hours	657.68		
(c) Noncredit Independent Study/Distance Education Courses	-		
D. Total FTES	10,063.89	-	-
Supplemental Information (subset of above information)			
E. In-Service Training Courses	-		
H. Basic Skills Courses and Immigrant Education			
1. Noncredit <sup>1</sup>	48		
2. Credit	402		
<hr/>			
CCFS 320 Addendum			
CDCP Noncredit FTES			
Centers FTES			
1. Noncredit <sup>1</sup>			
2. Credit			

<sup>1</sup> Including Career Development & College Preparation (CDCP) FTES

See accompanying note to supplementary information.

**Victor Valley Community College District**

Reconciliation of Annual Financial and Budget Report With Audited Fund Balances  
For the Year Ended June 30, 2009

	General Fund	Debt Service Fund	Child Development Fund	Capital Projects Fund	Revenue Bond Fund
<b>FUND BALANCE</b>					
Balance, June 30, 2009 Unaudited Actuals 311	\$ 10,899,621	\$ 28,022,430	\$ 90,259	\$ 2,880,247	\$ 81,339,621
Change in:					
Accounts receivable	1,523,816	-	-	-	-
Accounts payable	943,509	-	-	-	-
Audited financial statements fund balance	<u>\$ 13,366,946</u>	<u>\$ 28,022,430</u>	<u>\$ 90,259</u>	<u>\$ 2,880,247</u>	<u>\$ 81,339,621</u>

	Bookstore Fund	Cafeteria Fund	Student Body Self-insurance Fund	Internal Service Fund	Associated Students Trust Fund	Student Body Center Fund
<b>FUND BALANCE</b>						
Balance, June 30, 2009 Unaudited Actuals 311	\$ 248,611	\$ 127,381	\$ 101,317	\$ 23,261	\$ 202,234	\$ 8,170
Change in:						
Accounts receivable	-	-	-	-	-	-
Accounts payable	-	-	-	-	-	-
Audited financial statements fund balance	<u>\$ 248,611</u>	<u>\$ 127,381</u>	<u>\$ 101,317</u>	<u>\$ 23,261</u>	<u>\$ 202,234</u>	<u>\$ 8,170</u>

See accompanying note to supplementary information.

**Victor Valley Community College District**

Note to Supplementa ry Information  
June 30, 2009

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**NOTE 1 – PURPOSE OF SCHEDULES**

**History and Organization**

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

**Schedules of Expenditures of Federal Awards and State Financial Assistance**

The audit of the Victor Valley Community College District for the year ended June 30, 2009 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the District on the modified accrual basis of accounting.

**Schedule of Workload Measure for State General Apportionment**

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

**Reconciliation of Annual Financial and Budget Report with Audited Fund Balances**

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

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*OTHER INDEPENDENT AUDITORS' REPORTS*

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

The Board of Trustees  
Victor Valley Community College District

We have audited the financial statements of Victor Valley Community College District (the "District"), as of and for the year ended June 30, 2009, and have issued our report thereon dated December 22, 2009. 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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described as findings 2009-1 and 2009-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.



The Board of Trustees  
Victor Valley Community College District

**Compliance and Other Matters**

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

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

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

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California  
December 22, 2009

**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

**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, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination 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, 2009. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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.

The Board of Trustees  
Victor Valley Community College District

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 below.

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.

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

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California  
December 22, 2009

## REPORT ON STATE COMPLIANCE

The Board of Trustees  
Victor Valley Community College District

We have audited the basic financial statements of Victor Valley Community College District (the "District") for the year ended June 30, 2009, and have issued our report thereon dated December 22, 2009. Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

### **General Directive**

Management Information System Implementation  
State General Apportionment (Required Data Elements)

### **Administration**

Open Enrollment

Student Fees

Instructional Materials and Health Fees

Apportionments

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

Fiscal Operations

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

The Board of Trustees  
Victor Valley Community College

**Student Services**

Matriculation

Uses of Matriculation Funds

CalWORKS

Use of State and Federal TANF Funding

**Facilities**

Scheduled Maintenance Program

In our opinion, the Victor Valley Community College District complied with the compliance requirements for the state programs listed and tested above. Nothing came to our attention as a result of the aforementioned procedures in indicate that the District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

Our examination of compliance made for the purposes set forth in the preceding paragraph of this report would not necessarily disclose all instances of noncompliance.

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

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

Victorville, California  
December 22, 2009

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*FINDINGS AND RECOMMENDATIONS*

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**Victor Valley Community College District**

Schedule of Findings and Questioned Costs  
June 30, 2009

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**SECTION 1 – SUMMARY OF AUDITORS’ RESULTS**

**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
<u>84.007, 84.032, 84.063, 84.375, 84.033</u>	<u>Student Financial Aid</u>
<u>84.042A</u>	<u>Title V, TRIO-Upward Bound</u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 530,658</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

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

## SECTION 2 – FINANCIAL STATEMENT FINDINGS

### 2009-1 FINANCIAL REPORTING

**Finding** In May 2006 the AICPA Accounting Standards Board (ASB) issued Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Matters Identified in an Audit*, which became effective for financial statements with periods ending on or after December 15, 2006. This pronouncement places significant additional responsibilities on management in regards to the preparation of financial statements.

Each year, community college districts are responsible for preparing complete and accurate financial statements, footnote disclosures, and management's discussion and analysis which are prepared in accordance with governmental generally accepted accounting principles. This financial reporting responsibility extends beyond the preparation of the traditional fund financial statements and includes financial statements that are required to be presented in accordance with Governmental Accounting Standards Board Statement 34 (GASB 34). Accordingly, community college districts should have policies and procedures in place to ensure complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared and reviewed prior to the arrival of the independent auditors.

Similar to the vast majority of California community college districts, the District does not have policies and procedures in place or the financial resources or specialized personnel available to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis, which conform to GASB 34 and the applicable governmental generally accepted accounting principles, are prepared and reviewed prior to the arrival of the independent auditors.

This condition has always existed at the District and is being reported in accordance with the requirements of SAS 112.

**Recommendation** Due to the nature of community college finance and the specific types of financial activities processed by the District, management and the governing board should weigh the cost of eliminating this control weakness against the benefits to be received. If it is determined that the District cannot fully remediate the control weakness, management should work to develop alternative procedures that can help to mitigate the financial reporting risk of the District.

**District Response** The District has determined that the cost of fully eliminating the control weakness outweighs the benefits to be received. However, management will work to develop alternative procedures that can help to mitigate the financial reporting risk of the District.



**Victor Valley Community College District**

Schedule of Findings and Questioned Costs  
June 30, 2009

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**SECTION 2 – FINANCIAL STATEMENT FINDINGS, Continued**

**2009-2 INTERNAL BALANCES**

**Finding** The internal balances showing on the statement of net assets should show as zero. This is a result of un-reconciled balances in the Due To and Due From accounts.

**Recommendation** At year end the District needs to ensure the Due To and Due From accounts for all funds, including the auxiliary funds, balance.

**District Response** The District will work with appropriate departments to ensure Due To and Due From accounts are reconciled.

**Victor Valley Community College District**

Schedule of Findings and Questioned Costs  
June 30, 2009

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**SECTION 3 – FEDERAL AWARDS FINDINGS**

There were no federal awards findings or questioned costs in 2008-09.

**Victor Valley Community College District**

Schedule of Findings and Questioned Costs  
June 30, 2009

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**SECTION 4 – STATE AWARDS FINDINGS**

There were no state awards findings or questioned costs in 2008-09.

**Victor Valley Community College District**

Status of Prior Year's Findings and Questioned Costs  
June 30, 2009

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**FINANCIAL STATEMENT FINDINGS**

**2008-1      ACCOUNTS PAYABLE**

**Finding**      The 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.

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

**Current Status**      Implemented.

**2008-2      DEFERRED REVENUE (VVC Card)**

**Finding**      The Bookstore maintains a deferred revenue account with actual cash to prepay a VVC Card. There are currently few controls surrounding the age of the outstanding funds.

**Recommendation**      The Bookstore needs to monitor student activity of cards older than 120 days and 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 or federal government.

**Current Status**      Implemented

## Victor Valley Community College District

Status of Prior Year's Findings and Questioned Costs  
June 30, 2009

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### FINANCIAL STATEMENT FINDINGS, Continued

#### 2008-3 STATEMENT OF AUDITING STANDARDS (SAS) No. 112

**Finding** In May 2006 the AICPA Accounting Standards Board (ASB) issued Statement of Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Matters Identified in an Audit*, which became effective for financial statements with periods ending on or after December 15, 2006. This pronouncement places significant additional responsibilities on management in regards to preparation of financial statements.

Similar to the vast majority of California community college districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis, which conform to GASB 34 and the applicable governmental generally accepted accounting principles, are prepared and reviewed prior to the arrival of the independent auditors. Nor does the District have the financial resources or specialized personnel available to ensure that all of the above are done prior to the arrival of the independent auditors.

**Recommendation** Due to the nature of community college finance and specific types of financial activities processed by the District, management and the governing board should weigh the cost of eliminating this control weakness against the benefits to be received. If it is determined that the District cannot fully remediate the control weakness, management should work to develop alternative procedures that can help mitigate the financial reporting of the District.

**Current Status** Not Implemented. See Finding 2009-1.

#### 2008-4 INTERNAL BALANCES

**Finding** The internal balances showing on the statement of net assets should show as zero. This is a result of unreconciled balances in the Due To and Due From accounts.

**Recommendation** At year end the District needs to ensure the Due To and Due From accounts for all funds, including the auxiliary funds, balance.

**Current Status** Not implemented. See Finding 2009-2.

**Victor Valley Community College District**

Status of Prior Year's Findings and Questioned Costs  
June 30, 2009

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**FEDERAL AWARDS FINDINGS**

There were no federal awards findings or questioned costs in 2007-08.

**STATE AWARDS FINDINGS**

There were no state awards findings or questioned costs in 2007-08.