# Victor Valley Community College District
## Unrestricted General Fund

10/1/2010

| | Actual Budget Year 2009-2010 | | Current Budget Year 2010-2011 | | Estimated Budget Year 2011-2012 | | Estimated Budget Year 2012-2013 | | Estimated Budget Year 2013-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Full-Time Equivalent Students (Funded)** | **9,489** | **-3.39%** | **9,699** | **2.21%** | **9,699** | **0.00%** | **9,699** | **0.00%** | **9,893** | **2.0%** |
| **Full-Time Equivalent Students (Unfunded)** | **561** | | **420** | | **769** | | **1,406** | | **1,525** | |
| **Full-Time Equivalent Students (Rolled)** | **551** | | **900** | | **900** | | **900** | | **900** | |
| **Total FTES** | **10,601** | | **11,019** | | **11,367** | | **12,005** | | **12,318** | |
| **BEGINNING FUND BALANCE** | **$9,293,779** | | **$9,202,648** | | **$7,469,748** | | **$4,989,485** | | **$2,843,980** | |
| **CATEGORY** | | | | | | | | | | |
| **ESTIMATED REVENUES** | | | | | | | | | | |
| **State (Apportionment Only)** | $38,629,102 | | $37,275,970 | | $37,275,970 | | $37,275,970 | | $38,021,490 | |
| **State (All Other)** | $394,556 | | $235,643 | | $235,643 | | $235,643 | | $159,048 | |
| **Local (Property Tax included)** | $14,192,320 | | $11,105,459 | | $11,105,459 | | $11,105,459 | | $11,105,459 | |
| **One-Time Revenue** | $0 | | $1,228,472 | | $842,000 | | $620,000 | | $620,000 | |
| **Transfers In: Reserve** | $5,650,000 | | $0 | | $0 | | $0 | | $0 | |
| **TOTAL REVENUES** | **$58,865,978** | | **$49,845,544** | | **$49,459,072** | | **$49,237,072** | | **$49,905,997** | |
| **ESTIMATED EXPENDITURES** | | | | | | | | | | |
| **Academic Salaries** | $23,077,070 | | $23,325,865 | | $23,531,865 | | $23,737,865 | | $23,943,865 | |
| **Classified Salaries** | $10,707,023 | | $11,112,199 | | $11,268,199 | | $11,424,199 | | $11,580,199 | |
| **Employee Benefits** | $7,948,221 | | $8,546,994 | | $8,634,885 | | $9,292,128 | | $10,047,956 | |
| **Fund OPEB Trust** | $6,500,000 | | $0 | | $0 | | $0 | | $0 | |
| **Payoff SERP #1 and #2** | $2,418,268 | | $0 | | $0 | | $0 | | $0 | |
| **Cost to Maintain FTES (10,000)** | $0 | | $465,552 | | $465,552 | | $465,552 | | $465,552 | |
| **Supplies, Software, Subscriptions** | $572,231 | | $697,030 | | $697,030 | | $697,030 | | $697,030 | |
| **Services and Operations** | $6,576,236 | | $6,514,544 | | $6,425,544 | | $6,099,544 | | $6,099,544 | |
| **Capital Outlay** | $1,156,861 | | $616,260 | | $616,260 | | $616,260 | | $616,260 | |
| **Debt Svc., Transfers, Reserves** | $1,200 | | $300,000 | | $300,000 | | $300,000 | | $300,000 | |
| **TOTAL ESTIMATED EXPENDITURES** | **$58,957,110** | | **$51,578,444** | | **$51,939,335** | | **$52,632,578** | | **$53,750,406** | |
| **FUND BALANCE** | **$3,202,648** | **5.4%** | **$2,669,748** | **5.2%** | **$2,789,485** | **5.4%** | **$1,593,980** | **3.0%** | **($1,000,430)** | **-1.9%** |
| **BRIDGE BALANCE** | **$6,000,000** | | **$4,800,000** | | **$2,200,000** | | **$0** | | **$0** | |
| **ENDING FUND BALANCE** | **$9,202,648** | | **$7,469,748** | | **$4,989,485** | | **$1,593,980** | | **($1,000,430)** | |
| ***Budget Deficit*** | | | | | | | **$ 1,250,000** | | **$ 4,000,000** | |
| **ENDING FUND BALANCE** | | | | | | | **$ 2,843,980** | **5.4%** | **$ 2,999,570** | **5.6%** |

# Victor Valley Community College District

**San Bernardino County**
**Victorville , California**

**Report on Audit**
**June 30, 2010**

**Victor Valley Community College District**

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June 30, 2010


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Messner & Hadley, LLP
*Certified Public Accountants*

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

**INDEPENDENT AUDITORS' REPORT**

The Board of Trustees
Victor Valley Community College District

We have audited the accompanying financial statements of the business-type activities of Victor Valley Community College District (the "District"), as of and for the year ended June 30, 2010, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Victor Valley Community College District, as of June 30, 2010, 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 31, 2010, 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 considered in assessing the results of our audit.



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The Board of Trustees
Victor Valley Community College District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and the schedule of funding progress on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary section is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Messner & Hadley, LLP

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 31, 2010

## 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, 2010. The discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

The 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, 2010. 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 nets 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 futures periods, e.g., earned but unused employee vacation balances.

## FINANCIAL HIGHLIGHTS

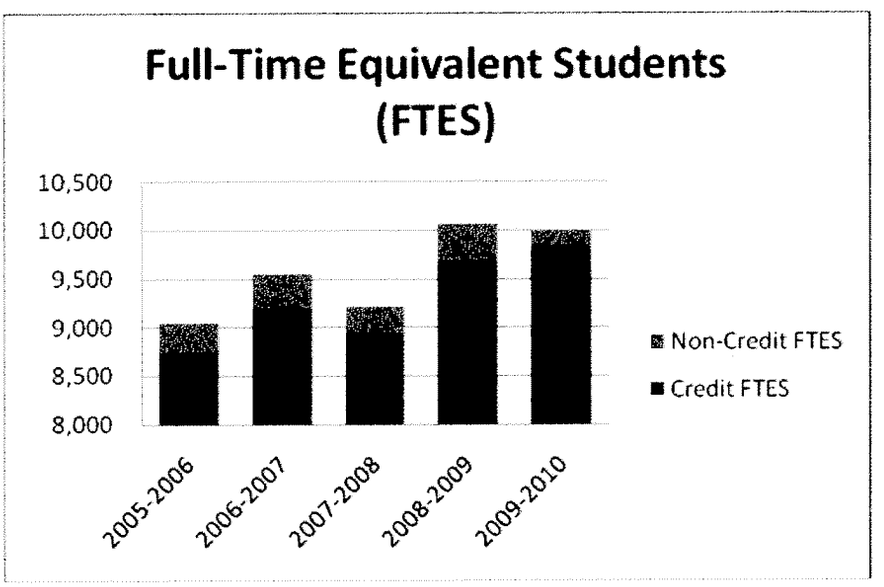
This section provides condensed information for each of the three basic financial statements, as well as illustrative charts and tables.

The District has experienced a boom in growth; its enrollment exceeded 10,000 full-time equivalent students during 2008-09, and has maintained that level through 2009-10. This growth has resulted in an additional $1 million received by the State in apportionment. The growth rate projected for 2010-11 is 2.21 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' five-year trend for FTES:

| Fiscal Year | Credit FTES | Non-Credit FTES |
|---|---|---|
| 2005-2006 | 8,746 | 303 |
| 2006-2007 | 8,596 | 207 |
| 2007-2008 | 8,946 | 265 |
| 2008-2009 | 9,689 | 375 |
| 2009-2010 | 9,826 | 176 |

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



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 $852,880.

| | 2010 | 2009 | Difference |
|---|---|---|---|
| Property Tax Revenue | $ 6,257,671 | $ 9,817,314 | $ (3,559,643) |
| Tuition and Fees | 2,950,173 | 2,856,533 | 93,640 |
| Apportionment | 38,867,008 | 34,548,125 | 4,318,883 |
| Totals | $ 48,074,852 | $ 47,221,972 | $ 852,880 |

**SELECTED HIGHLIGHTS**

- During fiscal year 2009-2010, total full-time equivalents students (FTES) increased approximately 1.50% for credit courses and decreased 49.1% for non-credit courses. The decrease in non-credit classes was due mainly to the cessation of winter session course offerings.

- 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.

## 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.

| *(amounts in thousands)* | 2010 | 2009 | Net Change |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | $ 95,778 | $ 114,313 | $ (18,535) |
| Non-current assets | 122,215 | 109,068 | 13,147 |
| **Total Assets** | $ 217,993 | $ 223,381 | $ (5,388) |
| **LIABILITIES** | | | |
| Current liabilities | $ 12,759 | $ 10,063 | $ 2,696 |
| Non-current liabilities | 148,762 | 149,766 | (1,004) |
| **Total Liabilities** | 161,521 | 159,829 | 1,692 |
| **Net Assets** | | | |
| Invested in capital assets, net of related debt | 15,825 | 21,418 | (5,593) |
| Restricted | 37,476 | 1,617 | 35,859 |
| Unrestricted | 3,171 | 40,517 | (37,346) |
| **Total Net Assets** | 56,472 | 63,552 | (7,080) |
| **Total Liabilities and Net Assets** | $ 217,993 | $ 223,381 | $ (5,388) |

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 decreased from last year by $7,080,655 for the fiscal year ending June 30, 2010. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less accumulated depreciation.

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

- Approximately 78 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 $12,847,753, is from federal and state sources for grant and entitlement programs.

- Capital assets had a net balance of $98.6 million. Depreciation expense of $3.4 million was recognized during 2009-2010.

- Accounts payable in the amount of $7.99 million are amounts due as of the fiscal year-end for goods and services received as of June 30, 2010. Interest payable accruals total $3,457,725. Other current liabilities in the amount of $330,202 related mainly to deferred revenues, and non-current liabilities in the amount of $312,847 for general obligation bonds have been recognized for the year ended June 30, 2010.

- The District currently has $140.8 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 $15.83 million.

- During 2009-10, the District made a $6,500,000 irrevocable contribution to their post-employment benefits (OPEB) trust.

## 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.

| *(amounts in thousands)* | 2010 | 2009 | Net Change |
|---|---|---|---|
| **Revenues** | | | |
| Operating | | | |
| Tuition and fees | $ 2,950 | $ 2,856 | $ 94 |
| Grant revenue | 44,365 | 34,026 | 10,339 |
| Other | 4,310 | 4,759 | (449) |
| Total operating revenue | 51,625 | 41,641 | 9,984 |
| Non-operating | | | |
| Apportionment and property taxes | 45,125 | 44,365 | 760 |
| Capital grants | - | 3,289 | (3,289) |
| Other | 5,573 | 6,166 | (593) |
| Total non-operating revenue | 50,698 | 53,820 | (3,122) |
| **Total Revenues** | 102,323 | 95,461 | 6,862 |
| **Expenses** | | | |
| Operating | | | |
| Salaries and benefits | 49,994 | 49,453 | 541 |
| Payments to students | 32,433 | 21,635 | 10,798 |
| Other | 20,198 | 20,434 | (236) |
| Total operating expenses | 102,625 | 91,522 | 11,103 |
| Non-operating | 6,778 | 995 | 5,783 |
| **Total Expenses** | 109,403 | 92,517 | 16,886 |
| **Excess** | (7,080) | 2,944 | (10,024) |
| **Net Assets - Beginning** | 63,552 | 60,608 | 2,944 |
| **Net Assets - Ending** | $ 56,472 | $ 63,552 | $ (7,080) |

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

Total Operating Revenues reflects an increase in tuition and fees of $93,640 from the previous year, due to the fact that the District has seen another increase in the number of students coming to the college. 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 decreases 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 $11,101,971. The increase is comprised of four parts: 1) salaries and benefits increased by $541,850; 2) supplies, maintenance, payments to students, and other operating expenses decreased by $226,885; 3) payments to students increased by $10,797,344; and 4) depreciation and amortization decreased by $10,338.

Operating expenses are 48.7% related to personnel costs. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, utilities and depreciation expense.

## 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.

| *(amounts in thousands)* | 2010 | 2009 | Net Change |
|---|---|---|---|
| Cash used in operating activities | $ (56,780) | $ (43,477) | $ (13,303) |
| Cash provided by non-capital financing | 54,480 | 43,210 | 11,270 |
| Cash used in capital financing | (25,398) | 79,141 | (104,539) |
| Cash provided by investing activities | 9,458 | 6,949 | 2,509 |
| Total cash provided by (used in) | (18,240) | 85,823 | (104,063) |
| Cash - Beginning | 99,496 | 13,673 | 85,823 |
| Cash - Ending | $ 81,256 | $ 99,496 | $ (18,240) |

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), 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 in operating activities decreased by $13.3 million during fiscal year 2009-2010. The majority of the decrease is due to the District paying $10.8 million more in payments to students.

Cash flow provided by non-capital financing activities increased by $11.3 million from 2008-2009. This was caused by $12.63 million increase in apportionment, offset by a $1.11 million decrease in property taxes, and a $252,000 decrease in other receipts.

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

## 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, 2010, the District had total capital assets of $134.1 million consisting of land, buildings and building improvements, construction in progress, vehicles, data processing equipment and other office equipment. These assets have accumulated depreciation of $35.5 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.

| *(amounts in thousands)* | 2010 | 2009 | Net Change |
|---|---|---|---|
| Land and construction in progress | $ 16,172 | $ 1,612 | $ 14,560 |
| Buildings and equipment | 117,942 | 111,783 | 6,159 |
| Accumulated depreciation | (35,544) | (32,188) | (3,356) |
| **Total Capital Assets** | $ 98,570 | $ 81,207 | $ 17,363 |

## DEBT

At June 30, 2010, the District had $148.8 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.

| *(amounts in thousands)* | 2010 | 2009 | Net Change |
|---|---|---|---|
| General obligation bonds | 140,796 | 137,564 | 3,232 |
| Capital leases | 6,455 | 6,768 | (313) |
| Other long-term liabilities | 1,511 | 5,434 | (3,923) |
| **Total Long-term Liabilities** | $ 148,762 | $ 149,766 | $ (1,004) |

## ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The 2010-11 state budget for community colleges included no COLA on general purpose apportionments and 2.21% growth funding for our district. 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.

*BASIC FINANCIAL STATEMENTS*

**Victor Valley Community College District**

Statement of Net Assets
June 30, 2010

| | |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents | $ 81,256,513 |
| Accounts receivable | 12,729,529 |
| Internal balances | 858,233 |
| Stores inventory | 793,953 |
| Other assets | 140,247 |
| Total current assets | 95,778,475 |
| Non-current assets: | |
| Investments | 21,411,083 |
| OPEB asset | 2,233,886 |
| Fixed assets, net | 98,570,671 |
| Total non-current assets | 122,215,640 |
| **TOTAL ASSETS** | $ 217,994,115 |
| **LIABILITIES** | |
| Current liabilities: | |
| Current liabilities | $ 8,658,997 |
| Interest payable | 3,457,725 |
| Deferred revenue | 330,202 |
| Current portion of long-term debt | 312,847 |
| Total current liabilities | 12,759,771 |
| Non-current liabilities | 148,762,486 |
| **TOTAL LIABILITIES** | 161,522,257 |
| **NET ASSETS** | |
| Invested in capital assets | 15,824,628 |
| Debt service | 21,606,883 |
| Capital projects | 3,865,112 |
| Special revenue funds | 1,566,629 |
| Other activities | 10,436,901 |
| Unrestricted | 3,171,706 |
| **TOTAL NET ASSETS** | 56,471,859 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 217,994,116 |

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, 2010

| | |
|---|---|
| **OPERATING REVENUES** | |
| Tuition and fees | $ 2,950,173 |
| Grants and contracts | |
| Federal | 35,916,729 |
| State | 4,457,436 |
| Local | 3,990,466 |
| Auxiliary enterprise sales and charges | 4,309,710 |
| **Total Operating Revenues** | 51,624,514 |
| **OPERATING EXPENSES** | |
| Salaries | 39,781,458 |
| Benefits | 10,212,905 |
| Payments to students | 32,432,559 |
| Supplies and materials | 1,343,469 |
| Other services and operating expenses | 15,450,395 |
| Depreciation | 3,404,461 |
| **Total Operating Expenses** | 102,625,247 |
| **OPERATING INCOME/(LOSS)** | (51,000,733) |
| **NON-OPERATING REVENUES/(EXPENSES)** | |
| State apportionments, non-capital | 38,867,008 |
| Local property taxes | 6,257,671 |
| State taxes and other revenues | 156,650 |
| Investment income - non-capital | 3,135,335 |
| Interest expense - capital asset-related debt | (6,412,074) |
| Other non-operating revenues | 2,280,675 |
| Other non-operating expenses | (365,187) |
| **Total non-operating revenues** | 43,920,078 |
| **CHANGE IN NET ASSETS** | (7,080,655) |
| **NET ASSETS** | |
| **Net Assets - Beginning** | 63,552,514 |
| **Net Assets - Ending** | $ 56,471,859 |

See the accompanying notes to the financial statements.

**Victor Valley Community College District**

Statement of Cash Flows
For the Year Ended June 30, 2010

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Tuition and fees | $ 2,893,771 |
| Grants and contracts | 36,548,584 |
| Payments to suppliers | (17,851,563) |
| Payments to/on-behalf of employees | (50,166,467) |
| Student loans/grants | (32,432,559) |
| Auxiliary enterprise sales and charges | 4,228,415 |
| Net cash provided by (used in) operating activities | (56,779,819) |
| **Cash Flows from Non-Capital Financing Activities** | |
| State apportionments and receipts | 43,726,767 |
| Property taxes | 7,786,794 |
| Other receipts (payments) | 2,966,749 |
| Net cash provided by (used in) non-capital financing activities | 54,480,310 |
| **Cash Flows from Capital Financing Activities** | |
| Purchases of capital assets | (20,767,997) |
| Interest paid on capital debt | (4,158,943) |
| Principal paid on capital debt | (471,369) |
| Net cash provided by (used in) capital financing activities | (25,398,309) |
| **Cash Flows from Investing Activities** | |
| Proceeds from sales and maturities of investments | 6,449,503 |
| Interest on investments | 3,008,266 |
| Net cash provided by (used in) investing activities | 9,457,769 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (18,240,049) |
| **CASH AND CASH EQUIVALENTS** | |
| **Beginning of year** | 99,496,562 |
| **End of year** | $ 81,256,513 |

See the accompanying notes to the financial statements.

**Victor Valley Community College District**

Statement of Cash Flows
For the Year Ended June 30, 2010

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

| | |
|---|---|
| Operating loss | $ (51,000,733) |
| Depreciation | 3,404,461 |
| Increase in accounts receivable | (6,998,526) |
| Decrease in inventory | 136,660 |
| Increase in other assets | (2,233,886) |
| Decrease in accounts payable | (550,249) |
| Decrease in deferred revenue | (51,029) |
| Increase in other liabilities | 513,483 |
| **Net cash used in operating activities** | $ (56,779,819) |

See the accompanying notes to the financial statements.

**Victor Valley Community College District**

Statement of Fiduciary Net Assets
June 30, 2010

| | Student Body Center Fee Fund | Health Trust Fund | Associated Student Body | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 23,537 | $ 31,170 | $ 255,298 | $ 310,005 |
| Accounts receivable | 1,143 | 91 | 5,387 | 6,621 |
| Total current assets | 24,680 | 31,261 | 260,685 | 316,626 |
| **TOTAL ASSETS** | $ 24,680 | $ 31,261 | $ 260,685 | $ 316,626 |
| **LIABILITIES** | | | | |
| Current liabilities | $ 16,952 | $ - | $ 57,643 | $ 74,595 |
| **NET ASSETS** | | | | |
| Due to student groups | 7,728 | - | 203,042 | 210,770 |
| Due to employees | - | 31,261 | - | 31,261 |
| **TOTAL NET ASSETS** | 7,728 | 31,261 | 203,042 | 242,031 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 24,680 | $ 31,261 | $ 260,685 | $ 316,626 |

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, 2010

| | Student Body Center Fee Fund | Health Trust Fund | Associated Student Body | Total |
|---|---|---|---|---|
| **OPERATING REVENUE** | | | | |
| Fees and receipts | $ 111,622 | $ 8,000 | $ 166,185 | $ 285,807 |
| **OPERATING EXPENSE** | | | | |
| Services and activities | 112,064 | - | 166,113 | 278,177 |
| **CHANGE IN NET ASSETS** | | | | |
| **NET ASSETS** | (442) | 8,000 | 72 | 7,630 |
| **Net Assets - Beginning** | 8,170 | 23,261 | 202,970 | 234,401 |
| **Net Assets - Ending** | $ 7,728 | $ 31,261 | $ 203,042 | $ 242,031 |

See the accompanying notes to the financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

Victor Valley Community College District (the "District") is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. The District consists of one community college located in Victorville, California. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a State instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal taxes. The decision to include a potential unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement No. 14 as amended by GASB Statement No. 39. The three criteria for requiring a legally separate, tax-exempt organization to be discretely presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion.

### Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

### 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.

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 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.

## 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:

| Asset Class | Estimated Useful Life |
|---|---|
| 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.

## 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 2011 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, 2010.

## 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.

**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 non-exchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB No. 33, *Accounting and Financial Reporting for Non-exchange 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.

**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.

Cash and investments, as of June 30, 2010, are classified in the accompanying financial statements as follows:

| **Business - Type Activities** | Category 1 | Category 2 | Category 3 | Total Bank Balances | Carrying Amount | Market Value |
|---|---|---|---|---|---|---|
| Cash on hand | $ - | $ - | $ - | $ - | $ 5,250 | N/A |
| Deposits in financial institutions | 250,000 | 974,520 | - | 1,224,520 | 1,566,053 | $ 1,224,520 |
| Cash in county treasury | - | 79,685,210 | - | - | 79,685,210 | 79,685,210 |
| Investments | - | - | 21,411,083 | N/A | 21,411,083 | 21,411,083 |
| Subtotal | 250,000 | 80,659,730 | 21,411,083 | 1,224,520 | 102,667,596 | 102,320,813 |
| **Fiduciary Funds** | | | | | | |
| Cash on hand | - | - | - | - | 250 | N/A |
| Deposits in financial institutions | 250,000 | 5,548 | - | 255,548 | 255,548 | 961,104 |
| Cash in County | - | 54,707 | - | | 54,707 | 54,707 |
| Subtotal | 250,000 | 60,255 | - | 255,548 | 310,505 | 1,015,811 |
| Total cash and investments | $ 500,000 | $ 80,719,985 | $ 21,411,083 | $ 1,480,068 | $ 102,978,101 | $ 103,336,624 |

## 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 trustees 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 trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

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

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District's sole investment matures on December 1, 2024.

**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.

## NOTE 3 – RECEIVABLE S

Receivables at June 30, 2010, consist of the following:

| | Governmental Activities | Fiduciary Funds | Total |
|---|---|---|---|
| Federal Government | | | |
| Categorical aid | $ 7,757,817 | $ - | $ 7,757,817 |
| State Government | | | |
| Apportionment | 858,279 | - | 858,279 |
| Categorical aid | 769,725 | - | 769,725 |
| Lottery | 615,732 | - | 615,732 |
| Other State | 1,109,543 | - | 1,109,543 |
| Local Government | | | |
| Interest | 247,422 | - | 247,422 |
| Other Local Sources | 1,489,235 | 6,621 | 1,495,856 |
| | $ 12,847,753 | $ 6,621 | $ 12,854,374 |

## NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

| **Business-Type Activities** | Balance July 01, 2009 | Additions | Deductions | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 966,682 | $ 10,688,571 | $ - | $ 11,655,253 |
| Construction in progress | 645,122 | 3,871,994 | - | 4,517,116 |
| Total capital assets not being depreciated | 1,611,804 | 14,560,565 | - | 16,172,369 |
| Capital assets being depreciated: | | | | |
| Land improvements | 6,234,798 | 3,884,721 | - | 10,119,519 |
| Buildings and improvements | 95,110,899 | 1,112,140 | - | 96,223,039 |
| Furniture and equipment | 10,437,609 | 1,210,571 | 48,293 | 11,599,887 |
| Total capital assets being depreciated | 111,783,306 | 6,207,432 | 48,293 | 117,942,445 |
| Less accumulated depreciation: | | | | |
| Land improvements | 3,294,673 | (52,528) | - | 3,242,145 |
| Buildings and improvements | 21,061,005 | 2,591,301 | - | 23,652,306 |
| Furniture and equipment | 7,832,297 | 865,688 | 48,293 | 8,649,692 |
| Total accumulated depreciation | 32,187,975 | 3,404,461 | 48,293 | 35,544,143 |
| **Capital Assets, net** | $ 81,207,135 | $ 17,363,536 | $ - | $ 98,570,671 |

## 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, 2010 consisted of the following:

| | Business-Type Activities | Fiduciary Funds | Total |
|---|---|---|---|
| Payroll | $ 2,750,820 | $ - | $ 2,750,820 |
| Construction | 798,139 | - | 798,139 |
| Vendor payable | 4,450,361 | 74,595 | 4,524,956 |
| | $ 7,999,320 | $ 74,595 | $ 8,073,915 |

## NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2010 consisted of the following:

| | Business-Type Activities |
|---|---|
| State sources | $ 59,574 |
| Tuition and enrollment | 76,675 |
| VVC Cards | 192,647 |
| Other | 1,306 |
| | $ 330,202 |

## NOTE 8 – LONG-TERM LIABILITIES

### Summary

A schedule of changes in long-term debt for the year ended June 30, 2010 is shown below:

| | Balance July 01, 2009 | Additions | Deductions | Due in One Year | Long-term Balance |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| General Obligation bonds | $ 136,022,028 | $ 3,008,956 | $ - | $ - | $ 139,030,984 |
| Bond Premium | 1,541,953 | 274,227 | 51,175 | - | 1,765,005 |
| Capital leases | 7,239,748 | - | 471,369 | 312,847 | 6,455,532 |
| Accumulated vacation | 1,705,397 | - | 194,432 | - | 1,510,965 |
| Other postemployment benefits | 3,728,687 | 924,333 | 4,653,020 | - | - |
| | $ 150,237,813 | $ 4,207,516 | $ 5,369,996 | $ 312,847 | $ 148,762,486 |

### Compensated Absences

Accumulated unpaid employee vacation benefits as of June 30, 2010 are $1,510,965.

### Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The District's annual required contribution for the year ended June 30, 2010, was $924,333 and contributions made by the District during the year were $6,866,906 which resulted in a net OPEB asset for 2010 of $5,962,573. See Note 9 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

### 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.

The annual requirement for the general obligation bonds outstanding at June 30, 2010 is as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2011 | $ - | $ 5,486,267 | $ 5,486,267 |
| 2012 | 690,000 | 5,542,750 | 6,232,750 |
| 2013 | 862,254 | 5,580,946 | 6,443,200 |
| 2014 | 1,063,141 | 5,598,459 | 6,661,600 |
| 2015 | 1,271,500 | 5,621,800 | 6,893,300 |
| 2016-2020 | 5,978,372 | 32,310,728 | 38,289,100 |
| 2021-2025 | 14,213,532 | 26,821,974 | 41,035,506 |
| 2026-2030 | 24,407,482 | 24,946,968 | 49,354,450 |
| 2030-2034 | 30,841,637 | 65,950,502 | 96,792,139 |
| 2035-2039 | 40,559,239 | 201,053,473 | 241,612,713 |
| 2040-2044 | 16,135,000 | 4,174,931 | 20,309,931 |
| Accretion | 3,008,825 | (3,008,825) | - |
| Total | $ 139,030,984 | $ 380,079,972 | $ 519,110,956 |

**Capital Leases**

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

| | Lease payments |
|---|---|
| Year ending June 30, | |
| 2011 | $ 623,905 |
| 2012 | 591,063 |
| 2013 | 478,602 |
| 2014 | 509,258 |
| 2015 | 523,389 |
| 2015 - 2019 | 1,821,361 |
| 2020 - 2024 | 2,744,006 |
| 2025 - 2028 | 810,068 |
| | 8,101,652 |
| Subtotal | (1,333,273) |
| | $ 6,768,379 |

## NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, the District provides post retirement health care benefits as follows:

### Plan Description

Following is a description of the current retiree benefit plan:

| Benefit types provided | Medical and life | Medical only | Medical, vision and life |
|---|---|---|---|
| Duration of Benefits | To age 65 | To age 65 | To age 65 |
| Required Service | 10 years | 10 years | 10 years |
| Minimum Age | 50 or 55* | 50 | 50 or 55* |
| Dependent Coverage | Spouse | Spouse | Spouse |
| College Contribution % | 100% | 100% | 100% |
| College Cap | None | None | None |

*50 for CalPERS, 55 for CalSTRS

### Funding Policy

Currently there is no funding policy.

### Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

| | | |
|---|---|---|
| Annual required contribution | $ | 737,899 |
| Interest on net OPEB obligation | | 186,434 |
| Adjustment to annual required contribution | | - |
| Annual OPEB cost (expense) | | 924,333 |
| Contributions made | | (6,886,906) |
| Increase in net OPEB obligation | | (5,962,573) |
| Net OPEB obligation, beginning of year | | 3,728,687 |
| Net OPEB obligation, end of year | $ | (2,233,886) |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 was as follows:

| Year Ended June 30, | Annual Required Contribution | Percentage Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|
| 2009 | $ 737,899 | 48.25% | $ 3,728,687 |
| 2010 | $ 924,333 | 745.07% | $ (2,233,886) |

**Funded Status and Funding Progress**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March 1, 2009 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5% percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare cost increases were estimated at 4 percent annually. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2009, was 30 years. The actuarial value of assets was not determined in this actuarial valuation. At June 30, 2010, the Trust held net assets in the amount of $6,707,856.

## NOTE 10 – 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 statues, 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 2009-10 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, 2010, 2009, and 2008 were $1,280,114, $1,199,500, and $1,201,443, 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 statues, 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 2009-10 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, 2010, 2009, and 2008 were $1,844,374, $1,760,364, and $1,765,188, respectively, and equal 100 percent of the required contributions for each year.

## NOTE 11 – 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 2010.

### Operating Leases

The District leases certain office equipment under operating leases. These leases expire in accordance with contracts through 2012 as follows:

| Year Ending June 30, | Lease Payment |
|---|---|
| 2011 | $ 17,669 |
| 2012 | 12,173 |
| | $ 29,842 |

## NOTE 12 – 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.

The District participates in the following JPAs:

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

## NOTE 13 – 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.

*REQUIRED SUPPLEMENTARY INFORMATION*

**Victor Valley Community College District**

Schedule of Postemployment Healthcare Benefits Funding Progress
For the Year Ended June 30, 2010

**Schedule of Funding Progress**

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funding Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| March 1, 2009 | $ - | $ 6,582,497 | $ 6,582,497 | $ - | $ 39,781,458 | 16.55% |

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.

## NOTE 1 – PURPOSE OF SCHEDULE

**Schedule of Postemployme nt 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.

*SUPPLEMENTARY INFORMATION*

**Victor Valley Community College District**

History and Organization
June 30, 2010

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.

| MEMBER | OFFICE | TERM EXPIRES |
|---|---|---|
| Angela Valles | President | November 2011 |
| Chris Mollenkamp | Vice-President | November 2010 |
| Dennis Henderson | Clerk | November 2010 |
| Don Nelson | Trustee | November 2010 |
| Joe Range | Trustee | November 2011 |

**ADMINISTRATION**

| | |
|---|---|
| Dr. Christopher O'Hearn | Interim Superintendent / President |
| Mark Zacovic | Interim 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, 2010

| Name of Agency / Grant / Program | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAM | | | |
| Student Financial Aid Cluster **[1]**: | | | |
| *Federal Work Study* | 84.033 | * | $ 422,519 |
| *SEOG* | 84.007 | * | 18,071 |
| *Pell* | 84.063 | * | 21,107,296 |
| *Student Financial Aid Administrative Allowance* | 84.033 | * | 500,831 |
| Title IV Student Support Services | 84.042A | * | 202,814 |
| Title IV Student Support Services - Type 2009 | 84.042A | * | 64,080 |
| Title IV Student Support Svcs/Student Grants | 84.042A | * | 53,372 |
| Title IV TRIO: Upward Bound | 84.042A | * | 577,269 |
| Title V Hispanic - Serving Grant | 10.223 | * | 961,546 |
| Gear Up | 84.334A | * | 594,168 |
| PASSED THROUGH CALIFORNIA DEPARTMENT OF EDUCATION | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | * | 128,107 |
| TANF/Child Development Careers Program | 93.558 | * | 41,802 |
| Title I - Part C | 84.048 | * | 438,512 |
| Title III-E Tech Prep | 84.023 | * | 10,000 |
| Early Start Comprehensive Program | 93.600 | * | 2,531 |
| | | **Total Federal Programs** | $ 25,122,918 |

**[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, 2010

| PROGRAM | Program Revenues: Cash Received | Accounts Receivable (Payable) | Deferred Revenue | Total Revenue | Program Expenditures |
|---|---|---|---|---|---|
| STATE | | | | | |
| GENERAL FUND and FINANCIAL AID | | | | | |
| Calworks | $ 404,244 | $ (70,421) | $ - | $ 333,823 | $ 333,823 |
| Cal Works - Placement-Incl above | - | - | - | - | - |
| CARE | 200,741 | - | - | 200,741 | 144,372 |
| Disabled Students Program And Services | 447,543 | - | - | 447,543 | 447,543 |
| Extended Opportunity Program and Services | 614,050 | - | - | 614,050 | 577,585 |
| CAHSEE #3 (High School Exit Exam) - Type 2008 | 80,000 | 25,455 | - | 105,455 | 105,455 |
| State Deferred Maintenance | - | - | - | - | 20,292 |
| Foster Parent/FKCE | 66,798 | 58,556 | - | 125,354 | 125,354 |
| Instructional Equipment Replacement - Type 2009 | - | - | - | - | 2,147 |
| Lottery | 775,287 | 615,732 | - | 1,391,019 | 1,067,435 |
| Lottery - Type 2008 | 11,906 | - | - | 11,906 | - |
| Matriculation, Credit | 282,987 | - | - | 282,987 | 260,016 |
| Matriculation, Noncredit | 16,248 | - | - | 16,248 | 2,940 |
| Basic Skills | 90,000 | - | - | 90,000 | 74,597 |
| Technology and Telecommunication Infrastructure | - | - | - | - | 28,091 |
| Staff Diversity | 5,884 | - | - | 5,884 | 3,449 |
| Staff Diversity - Type 2006 | - | - | - | - | 2,905 |
| Staff Diversity - Type 2007 | - | - | - | - | 2,151 |
| SB 1133 | - | - | - | - | 76,595 |
| Song-Brown Nursing Grant #2 | 29,992 | 10,008 | - | 40,000 | 40,000 |
| Song-Brown Nursing Grant #3 | - | 55,821 | - | 55,821 | 53,163 |
| Nursing Capacity Grant | 195,443 | 37,227 | - | 232,670 | 232,670 |
| Nursing Capacity Grant - Type 2009 | - | - | - | - | 233,811 |
| Nursing Recruitment & Retention | 4,160 | - | - | 4,160 | 4,160 |
| Career Exploration 7th & 8th | - | - | - | - | 26,868 |
| Career Pathways/SB 70 | - | - | - | - | 33,378 |
| Career Pathways/SB 70 - Type 2009 | - | - | - | - | 2,699 |
| Associate Degree in Nursing | - | - | - | - | 71,363 |
| CHILD DEVELOPMENT | | | | | |
| Child Development Training Consortium | 9,500 | - | - | 9,500 | 9,500 |
| Child Development Mentor Teaching Program | - | 2,495 | - | 2,495 | 2,495 |
| Total | $ 3,234,783 | $ 734,873 | $ - | $ 3,969,656 | $ 3,984,857 |

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, 2010

| | Reported Data |
|---|---|
| A. Summer Intersession (Summer 2009) | |
| 1. Noncredit | 46.77 |
| 2. Credit | 527.06 |
| B. Summer Intersession (Summer 2010 - Prior to July 1, 2010) | |
| 1. Noncredit | - |
| 2. Credit | 341.02 |
| C. Primary Terms (Exclusive of Summer Intersession) | |
| 1. Census Procedure Courses | |
| (a) Weekly Census Contact Hours | 6,671.34 |
| (b) Daily Census Contact Hours | 890.38 |
| 2. Actual Hours of Attendance | |
| (a) Noncredit | 129.72 |
| (b) Credit | 205.64 |
| 3. Independent Study/Work Experience | |
| (a) Weekly Census Contact Hours | 797.91 |
| (b) Daily Census Contact Hours | 392.65 |
| (c) Noncredit Independent Study/Distance Education Courses | - |
| D. Total FTES | 10,002.49 |
| H. Basic Skills Courses and Immigrant Education | |
| 1. Noncredit | 93.95 |
| 2. Credit | 464.69 |

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, 2010

| | General Fund | Debt Service Fund |
|---|---|---|
| **FUND BALANCE** | | |
| Balance, June 30, 2010 Annual Financial and Budget Report (Form CCFS-311) Fund Balances | $ 17,279,763 | $ 21,598,768 |
| Adjustments and reclassifications increasing (decreasing) fund balance: | | |
| Cash | (783,901) | 8,115 |
| Other liabilities | 722,921 | - |
| Accounts payable | (238,198) | - |
| Audited financial statements fund balance | $ 16,980,585 | $ 21,606,883 |

See accompanying note to supplementary information.

## 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, 2010 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.

*OTHER INDEPENDENT AUDITORS' REPORTS*

Messner & Hadley, LLP
Certified Public Accountants

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

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

The Board of Trustees
Victor Valley Community College District

We have audited the financial statements of the business-type activities that comprise the basic financial statements of Victor Valley Community College District (the "District"), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiency described as Finding 2010-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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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 finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the response and, accordingly, we express no opinion on it.

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. However, this report is a matter of public record and its distribution is not limited.

Messner & Hadley, LLP

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 31, 2010

Messner & Hadley, LLP
Certified Public Accountants

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

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 *OMB Circular A-133 Compliance Supplement* that are applicable to each of the District's major federal programs for the year ended June 30, 2010. 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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 2010-2.

### Internal Control Over Compliance

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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.



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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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. However, this report is a matter of public record and its distribution is not limited.

Messner & Hadley, LLP

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 31, 2010

Messner & Hadley, LLP
Certified Public Accountants

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

## REPORT ON STATE COMPLIANCE

The Board of Trustees
Victor Valley Community College District

We have audited the financial statements of the business-type activities of Victor Valley Community College District (the "District") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 31, 2010. 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 Directives**
Management Information System Implementation
– State General Apportionment Funding Required Data Elements

**Administration**
Open Enrollment

Minimum Conditions
– Standards of Scholarship

Student Fees
– Instructional Materials Fees and Health Fees

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

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



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The Board of Trustees
Victor Valley Community College District

**Student Services**
Matriculation
– Uses of Matriculation Funds

CalWorks
– Uses of State and Federal TANF Funding

**Special Programs**
Extended Opportunity Programs and Services (EOPS):
– Allocation of Costs

Disabled Student Program and Services (DSPS):
– Allocation of Costs

**Facilities**
– Scheduled Maintenance Programs

In our opinion, Victor Valley Community College District complied with the compliance requirements for the state programs listed and tested above, as shown in the Findings and Recommendatio n Section on the Schedule of State Awards Findings and Questioned Costs. Nothing came to our attention as a result of the aforementioned procedures to 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. However, this report is a matter of public record and its distribution is not limited.

Messner & Hadley, LLP

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
December 31, 2010

*FINDINGS AND RECOMMENDATIONS*

## SECTION 1 – SUMMARY OF AUDITORS' RESULTS

### FINANCIAL STATEMENTS

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

### FEDERAL AWARDS

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

| CFDA Numbers | Name of Federal Program of Cluster |
|---|---|
| 84.007, 84.033, 84.063 | Student Financial Aid Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 753,688 |
| Auditee qualified as low-risk auditee? | Yes |

### STATE AWARDS

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

## SECTION 2 – FINANCIAL STATEMENT FINDINGS

### 2010-1 FORM CCFS-311

**Specific Requirement** Balances reflected on the District's Annual Financial and Budget Report (Form CCFS-311) as reported to the Chancellor's Office must be supported by underlying District accounting records.

**Condition** We noted instances where balance sheet accounts reported on the CCFS-311 Report did not tie to the District's general ledger.

**Effect** The District is not able to support all financial information reported to the State with underlying detailed accounting records.

**Cause** The District may be incorrectly reporting amounts to the Chancellor's Office.

**Questioned Costs** None, as we were able to verify correct amounts.

**Recommendation** Procedures should be established to reconcile fund state reports to underlying supporting District financial records.

**District Response** The Chancellor's Office implemented new software for the completion of the annual CCFS-311 report. Some glitches were found in the program that prevented the District from entering all the balance sheet information. The District will work with the Chancellor's Office to resolve these issues for the next reporting period.

## SECTION 3 – FEDERAL AWARDS FINDINGS

### 2010-2 Financial Aid Student Account Reconciliation

**Specific Requirement** Student accounts in the financial aid department are required to be reconciled to the Department of Education's Common Origination and Disbursement (COD) system in a timely manner.

**Condition** The District's Financial Aid Department is not perpetually reconciling student accounts with the COD (Common Origination and Disbursement) system, they are instead waiting until year end to reconcile all student accounts.

**Effect** As a result of this practice the burden of reconciling the accounts is causing delayed completion of the Financial Aid accounts trial balance. Due to this delay, the trial balance was not available to the District's auditors in a timely manner.

**Cause** The District's Financial Aid Department is not interfacing with the District's Business Office on a regular basis to reconcile student accounts.

**Questioned Costs** None

**Recommendation** It is recommended that the District perform perpetual reconciliation of the student accounts with the COD system in order to reduce the work load at year end and allow the District to produce a trial balance in a timely manner.

**District Response** The District's new Financial Aid Director has already implemented new reconciliation procedures. Each time student disbursements are made, the accounts are reconciled with the COD system, which should reduce the load at the end of the year preparing student accounts to be summarized in the trial balance.

## SECTION 4 – STATE AWARDS FINDINGS

There were no state awards findings or questioned costs in 2009-2010.

## FINANCIAL STATEMENT FINDINGS

### 2009-1 FINANCIAL REPORTING

**Finding** Similar to the vast majority of California community college districts, the District does not have policies and procedures in place to ensure 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 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 mitigate the financial reporting risk of the District.

**Current Status** Implemented.

### 2009-2 INTERNAL BALANCES

**Finding** The internal balances showing on the statement on net assets should net to 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.

**Current Status** Implemented.

## FEDERAL AWARDS FINDINGS

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

## STATE AWARDS FINDINGS

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