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PASADENA AREA
COMMUNITY COLLEGE
DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2011 AND 2010

PASADENA AREA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS JUNE 30, 2011 AND 2010

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussions and Analysis (Required Supplementary Information)	4
Basic Financial Statements - Primary Government	
Statements of Net Assets	11
Statements of Revenues, Expenses, and Changes in Net Assets	12
Statements of Cash Flows	13
Fiduciary Funds	
Statements of Net Assets	15
Statements of Changes in Net Assets	16
Notes to Financial Statements	17

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Other Postemployment Benefits (OPEB) Funding Progress	45
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SUPPLEMENTARY INFORMATION

District Organization	47
Schedule of Expenditures of Federal Awards	48
Schedule of Expenditures of State Awards	50
Schedule of Workload Measures for State General Apportionment	51
Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements	52
Reconciliation of the Governmental Funds to the Statement of Net Assets	53
Note to Supplementary Information	54

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	57
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	59
Report on State Compliance	61

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	64
Financial Statement Findings and Recommendations	65
Federal Awards Findings and Questioned Costs	67
State Awards Findings and Questioned Costs	71
Summary Schedule of Prior Audit Findings	73

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Pasadena Area Community College District
Pasadena, California

We have audited the accompanying basic financial statements of Pasadena Area Community College District (the District) as of and for the years ended June 30, 2011 and 2010, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Pasadena Area Community College District as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding allocations of Pasadena Area Community College District.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, on our consideration of the District's internal control over financial reporting and on 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 is important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 45 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 basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vaurinek, June, Day & Co. LLP

Rancho Cucamonga, California
December 6, 2011



Office of the Vice President
for Administrative Services

This section of our annual financial report offers a narrative overview and analysis of the financial activities of Pasadena Area Community College District (the District) for the year ended June 30, 2011. This analysis is presented with comparative information from our June 30, 2010 and June 30, 2009, fiscal year ends to highlight changes from one year to the next. This section of our report should be read in conjunction with the basic financial statements, including footnotes. Responsibility for the completeness and accuracy of this information rests with the District management.

USING THIS ANNUAL REPORT

As required by generally accepted accounting principles, the annual report consists of three basic financial statements that provide information on the District's activities as a whole: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The Pasadena Area Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities*. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the District. This statement combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. This approach is intended to summarize and simplify the user's analysis of the cost of various District services to students and the public. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business-Type Activity (BTA) model for financial statement reporting purposes.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011 AND 2010

FINANCIAL HIGHLIGHTS

- The District ended the year with an unrestricted General Fund balance of \$18,897,982. The State Chancellor's Office recommends reserve levels of five percent of total General Fund expenditures, \$6,079,972, to be set aside for economic uncertainties. We have met this recommendation. With the State's fiscal policy of apportionment deferral, it is expected that the District will be required to cover \$22 million of expenses with its own money until the apportionment payments are made whole. While the ending balance is comprised primarily of cash and receivables, the Board of Trustees has authorized the use of interfund borrowing as necessary to ensure the orderly conducting of District business.
- The primary expenditure of the District is for the salaries and benefits of the Academic, Classified, and Administrative salaries of District employees. Approximately 63 percent of overall District operating expenditures are consumed by employee compensation.
- As a condition of the passage of the District's \$150 million General Obligation Bond, "Measure 'P,'" a Citizen's Oversight Committee was formed under Proposition 39 requirements and meets quarterly. The meetings are held on the last Wednesday of January, April, July, and October at Pasadena City College at 6:00 pm and are open to the public.
- The District provided student financial aid to qualifying students of the District in the amount of approximately \$43.8 million. This represents an increase of \$9.9 million from the 2009-2010 fiscal year. This aid is provided through grants, loans, and tuition reductions from the Federal government, State Chancellor's Office, and local funding.
- The District's credit full-time equivalent students (FTES) were 21,800 and 22,030 for the 2011 and 2010 fiscal years, respectively.
- The District's total reported FTES including non-credit FTES for the years ended 2011 and 2010, were 23,224 and 23,422, respectively.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION) JUNE 30, 2011 AND 2010

Condensed financial information is as follows:

Statement of Net Assets as of June 30,

(Amounts in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current Assets			
Cash, investments, and receivables	\$ 167,870	\$ 166,469	\$ 119,204
Inventory and other assets	1,863	1,762	2,127
Total Current Assets	<u>169,733</u>	<u>168,231</u>	<u>121,331</u>
Noncurrent Assets			
Capital assets, net of depreciation	181,759	184,803	181,572
Total Assets	<u>\$ 351,492</u>	<u>\$ 353,034</u>	<u>\$ 302,903</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 14,167	\$ 11,748	\$ 19,815
Other current liabilities	477	468	464
Deferred revenue	4,306	5,208	5,814
Claims liability	3,856	1,250	1,300
Long-term obligations - current portion	11,588	10,640	12,253
Total Current Liabilities	<u>34,394</u>	<u>29,314</u>	<u>39,646</u>
Noncurrent Liabilities			
Long-term obligations - noncurrent portion	132,065	135,229	85,591
Total Liabilities	<u>166,459</u>	<u>164,543</u>	<u>125,237</u>
NET ASSETS			
Invested in capital assets	113,555	112,851	119,853
Restricted for expendable purposes	38,825	35,018	18,313
Unrestricted	32,653	40,622	39,500
Total Net Assets	<u>185,033</u>	<u>188,491</u>	<u>177,666</u>
 Total Liabilities and Net Assets	 <u>\$ 351,492</u>	 <u>\$ 353,034</u>	 <u>\$ 302,903</u>

This schedule has been prepared from the District's Statements of Net Assets (page 11), which is presented on an accrual basis of accounting whereby capital assets are capitalized, depreciated, and all liabilities of the District are recognized.

Capital assets, net of depreciation is stated at the net historical value (original cost) of land, buildings, construction in progress, and equipment less accumulated depreciation.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011 AND 2010

Long-term obligations consist primarily of the general obligation bond issue, Public Agency Retirement Services (PARS) Supplementary Retirement Plan, Postemployment Benefits Obligation, and compensated absences. Long-term obligations decreased by approximately \$2 million as the District continued repayment of debt principal.

Statement of Operating Results for the Year Ended June 30,

(Amounts in thousands)

	2011	2010	2009
OPERATING REVENUES			
Tuition and fees, (net)	\$ 18,971	\$ 19,867	\$ 19,052
Auxiliary sales and charges	6,191	6,443	6,839
Other operating revenues	170	212	171
Total Operating Revenues	25,332	26,522	26,062
OPERATING EXPENSES			
Salaries and benefits	121,525	112,036	117,106
Supplies and maintenance	25,717	24,318	28,293
Student financial aid	35,971	27,147	22,361
Depreciation	8,615	7,095	8,135
Total Operating Expenses	191,828	170,596	175,895
NET LOSS ON OPERATIONS	(166,496)	(144,074)	(149,833)
NONOPERATING REVENUES AND (EXPENSES)			
State apportionments	80,523	78,562	83,825
Property taxes	31,198	35,858	28,895
Grants and contracts	49,581	39,145	36,608
State revenue	3,639	3,451	3,137
Investment income	1,800	1,776	2,734
Interest expense	(6,548)	(6,195)	(4,451)
Other nonoperating revenues and transfers	1,048	(42)	4,253
Total Nonoperating Revenues and (Expenses)	161,241	152,555	155,001
OTHER REVENUES			
State revenues, capital	-	54	243
Local revenues, capital	1,797	2,290	1,039
Total Other Revenues	1,797	2,344	1,282
NET CHANGE IN NET ASSETS	\$ (3,458)	\$ 10,825	\$ 6,450

This schedule has been prepared from the Statements of Revenues, Expenses, and Changes in Net Assets (page 12).

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011 AND 2010

The operating revenue for the District is specifically defined as revenues from users of the colleges' facilities and programs. Excluded from the operating revenues are the components of the primary source of District funding - the State apportionment process. These components include the State apportionment and local property taxes. As these resources of revenue are from the general population of the State of California, and not from the direct users of the educational services (students), they are considered to be nonoperating. As a result, the operating loss of \$166.5 million is balanced by the other funding sources. Total District revenues were less than expenditures by \$3.5 million for the year ended June 30, 2011.

Auxiliary revenue consists primarily of bookstore net revenues. The bookstore is maintained to provide books, supplies, and other items to the students and faculty of the District. The operations are self-supporting through product sales. Profits from the bookstore are used for student government and club activities.

Grant and contract revenues relate to student financial aid, as well as specific Federal and State grants received for programs serving the students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs.

The interest income is primarily the result of cash held at the Los Angeles County Treasury. The interest expense relates to interest payments on the General Obligation Bonds, lease commitments, and a note payable described in Note 10 of the financial statements.

Statement of Cash Flows for the Year Ended June 30,

(Amounts in thousands)

	2011	2010	2009
CASH FLOWS FROM			
Operating activities	\$ (148,114)	\$ (139,946)	\$ (143,872)
Noncapital financing activities	150,418	138,507	137,006
Capital financing activities	(6,200)	46,257	(45,802)
Investing activities	1,735	1,971	3,575
Net Change in Cash and Cash Equivalents	<u>\$ (2,161)</u>	<u>\$ 46,789</u>	<u>\$ (49,093)</u>

The Statement of Cash Flows provides information about cash receipts and payments during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and its need for external financing.

The primary operating receipts are student tuition and fees and Federal and Bookstore net sales. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff, as well as District administrators.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011 AND 2010

In accordance with requirements set forth by the California Community Colleges Chancellor's Office, the District reports operating expenses by object code. Operating expenses by functional classification are as follows:

For the Year Ended June 30, 2011

	Salaries and Benefits	Supplies, Material, and Other Expenses	Student Financial Aid	Other Outgo	Total
Instruction	\$ 61,669,160	\$ 1,535,229	\$ -	\$ -	\$ 63,204,389
Non-instruction	4,115,990	106,200	-	-	4,222,190
Academic support	13,254,109	1,236,611	-	-	14,490,720
Student services	13,522,849	1,093,859	-	-	14,616,708
Operation and maintenance of plant	7,152,746	4,099,169	-	-	11,251,915
Institutional support	16,624,119	4,137,261	-	-	20,761,380
Community services and economic development	493,727	405,233	-	-	898,960
Ancillary services and auxiliary	4,692,575	10,781,022	-	-	15,473,597
Student financial aid	-	-	35,971,406	-	35,971,406
Non-capitalized property items	-	2,321,875	-	-	2,321,875
Depreciation	-	-	-	8,615,122	8,615,122
Total	<u>\$ 121,525,275</u>	<u>\$ 25,716,459</u>	<u>\$ 35,971,406</u>	<u>\$ 8,615,122</u>	<u>\$ 191,828,262</u>

For the Year Ended June 30, 2010

	Salaries and Benefits	Supplies, Material, and Other Expenses	Student Financial Aid	Other Outgo	Total
Instruction	\$ 58,389,663	\$ 1,563,448	\$ -	\$ -	\$ 59,953,111
Non-instruction	4,285,570	117,679	-	-	4,403,249
Academic support	12,610,651	1,012,304	-	-	13,622,955
Student services	13,032,073	847,299	-	-	13,879,372
Operation and maintenance of plant	6,980,628	4,621,250	-	-	11,601,878
Institutional support	13,992,365	4,122,468	-	-	18,114,833
Community services and economic development	483,390	424,588	-	-	907,978
Ancillary services and auxiliary	2,262,362	10,309,028	-	-	12,571,390
Student financial aid	-	-	27,146,779	-	27,146,779
Non-capitalized property items	-	1,300,188	-	-	1,300,188
Depreciation	-	-	-	7,094,792	7,094,792
Total	<u>\$ 112,036,702</u>	<u>\$ 24,318,252</u>	<u>\$ 27,146,779</u>	<u>\$ 7,094,792</u>	<u>\$ 170,596,525</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011 AND 2010

ECONOMIC FACTORS AFFECTING THE FUTURE OF PASADENA AREA COMMUNITY COLLEGE DISTRICT

The economic position of the Pasadena Area Community College District is closely tied to California's economic position as State apportionments and property taxes allocated to the District represent approximately 81 percent of the unrestricted General Fund. The 2011-2012 State budget for community colleges contains no cost of living increase. The State economy is still operating at very low levels, with a State budget that is balanced in name only. There is a significant possibility that mid-year budget reductions will be required. The District has budgeted \$2.0 million for this eventuality.

The State's cut will impact all education segments in the State. Unfortunately, this comes at a time when the college enrollment is increasing, putting additional pressure on our already scarce resources. Management is closely monitoring all factors in an effort to control the ultimate impact of budget cuts on the District's financial health and on our ability to serve our students.

The 2011-2012 fiscal year will bring several significant construction events. The District is now constructing the new Center for the Arts, which is rising in place of the K and T buildings. The elevator upgrade and restroom upgrade projects will commence within the next few months as well. In the Fall of 2009, the District sold the final series of bonds authorized by Measure P.

There are no other known facts, decisions, or conditions that will have a significant effect on the financial position (net assets) or results of operations (revenues, expenses, and changes in net assets) of the District.

CONTACTING THE DISTRICT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the District at: Pasadena Area Community College District, 1570 East Colorado Blvd., Pasadena, CA, 91106-2003 or call (626) 585-7258.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS - PRIMARY GOVERNMENT JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Investments		
Cash and cash equivalents	\$ 1,232,944	\$ 1,067,088
Investments - unrestricted	6,648,183	10,694,331
Investments - restricted	134,376,176	132,656,720
Subtotal Cash and Investments	142,257,303	144,418,139
Accounts receivable	24,965,187	21,402,391
Student loans receivable	647,454	648,373
Prepaid expenses	873,204	810,230
Inventories	990,087	951,480
Total Current Assets	169,733,235	168,230,613
NONCURRENT ASSETS		
Nondepreciable capital assets	18,825,402	29,678,225
Depreciable capital assets, net of accumulated depreciation	162,934,032	155,125,357
Total Noncurrent Assets	181,759,434	184,803,582
TOTAL ASSETS	351,492,669	353,034,195
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	11,909,169	9,446,091
Accrued interest payable	2,258,272	2,302,199
Other current liabilities	477,266	467,868
Deferred revenue	4,306,325	5,207,936
Claims liability	3,856,000	1,250,000
Bonds and notes payable	10,224,747	10,544,704
Other long-term obligations	1,362,817	94,969
Total Current Liabilities	34,394,596	29,313,767
NONCURRENT LIABILITIES		
Bonds and notes payable	122,616,052	130,664,335
Other long-term obligations	9,448,996	4,565,049
Total Noncurrent Liabilities	132,065,048	135,229,384
TOTAL LIABILITIES	166,459,644	164,543,151
NET ASSETS		
Invested in capital assets, net of related debt	113,555,461	112,851,417
Restricted for:		
Debt service	10,916,832	12,328,057
Capital projects	27,908,075	22,689,389
Unrestricted	32,652,657	40,622,181
TOTAL NET ASSETS	\$ 185,033,025	\$ 188,491,044

The accompanying notes are an integral part of these financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY GOVERNMENT FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES		
Student Tuition and Fees	\$ 26,842,851	\$ 26,692,713
Less: Scholarship discount and allowance	(7,871,913)	(6,825,680)
Net tuition and fees	18,970,938	19,867,033
Auxiliary Enterprise Sales and Charges		
Bookstore	5,747,817	5,848,226
Other enterprise	442,903	595,167
Other operating revenues	170,154	212,061
TOTAL OPERATING REVENUES	25,331,812	26,522,487
OPERATING EXPENSES		
Salaries	89,036,882	88,808,507
Employee benefits - SERP and OPEB	32,488,393	23,228,195
Supplies, materials, and other operating expenses and services	23,394,584	23,018,064
Student financial aid	35,971,406	27,146,779
Equipment, maintenance, and repairs	2,321,875	1,300,188
Depreciation	8,615,122	7,094,792
TOTAL OPERATING EXPENSES	191,828,262	170,596,525
OPERATING LOSS	(166,496,450)	(144,074,038)
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	80,522,558	78,562,451
Local property taxes levied for general purposes	18,856,207	19,020,292
Local property taxes levied for debt repayment	12,341,718	16,838,217
Grants and Contracts, noncapital:		
Federal	38,604,171	29,426,578
State	10,976,468	9,718,156
State lottery	3,638,641	3,450,809
Investment income	1,799,781	1,775,559
Interest expense on capital related debt	(6,547,529)	(6,194,517)
Transfer to fiduciary funds	(273,567)	(301,185)
Other nonoperating revenue	1,322,854	258,773
TOTAL NONOPERATING REVENUES (EXPENSES)	161,241,302	152,555,133
INCOME BEFORE OTHER REVENUES	(5,255,148)	8,481,095
OTHER REVENUES		
State revenues, capital	-	54,106
Local revenues, capital	1,797,129	2,290,227
TOTAL OTHER REVENUES	1,797,129	2,344,333
CHANGE IN NET ASSETS	(3,458,019)	10,825,428
NET ASSETS, BEGINNING OF YEAR	188,491,044	177,665,616
NET ASSETS, END OF YEAR	\$ 185,033,025	\$ 188,491,044

The accompanying notes are an integral part of these financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS - PRIMARY GOVERNMENT FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 18,184,264	\$ 20,079,269
Payments to or on behalf of employees	(113,034,762)	(111,985,730)
Payments to vendors for supplies and services	(25,173,690)	(27,547,685)
Payments to students for scholarships and grants	(34,450,645)	(27,146,779)
Auxiliary sales and charges	6,360,874	6,655,454
Net Cash Flows From Operating Activities	(148,113,959)	(139,945,471)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	77,542,077	76,893,295
Property taxes - nondebt related	18,856,207	19,020,292
Grants and contracts	52,225,491	41,409,925
State taxes and other revenues	(109,569)	(50,699)
Other receipts	1,904,131	1,234,170
Net Cash Flows From Noncapital Financing Activities	150,418,337	138,506,983
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State revenues, capital projects	39,293	386,644
Local revenue, capital projects	1,797,129	2,290,227
Property taxes - related to capital debt	12,341,718	16,838,217
Proceeds from issuance of capital debt	-	55,582,086
Acquisition and construction of capital assets	(5,050,032)	(15,779,519)
Principal paid on capital debt and leases	(10,639,673)	(10,298,926)
Interest paid on capital debt and leases	(4,688,559)	(2,761,735)
Net Cash Flows From Capital and Related Financing Activities	(6,200,124)	46,256,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,734,910	1,970,860
Net Cash Flows From Investing Activities	1,734,910	1,970,860
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,160,836)	46,789,366
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	144,418,139	97,628,773
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 142,257,303	\$ 144,418,139

The accompanying notes are an integral part of these financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (166,496,450)	\$ (144,074,038)
Adjustments to Reconcile Operating Loss to Net Cash		
Flows From Operating Activities:		
Depreciation	8,615,122	7,094,792
Changes in Operating Assets and Liabilities:		
Receivables, net	919	40,263
Inventories	(38,607)	270,276
Prepaid expenses	(62,974)	94,643
Accounts payable and accrued liabilities	4,549,306	(3,858,301)
Deferred revenue	(928,039)	293,397
Compensated absences and load banking	(754,476)	(597,783)
PARS supplementary retirement plan	6,309,315	-
Other postemployment benefits	691,925	791,280
Total Adjustments	<u>18,382,491</u>	<u>4,128,567</u>
Net Cash Flows From Operating Activities	<u>\$ (148,113,959)</u>	<u>\$ (139,945,471)</u>
 Cash and Cash Equivalents Consist of the Following:		
Cash in banks	\$ 1,232,944	\$ 1,067,088
Cash in county treasury	141,024,359	143,351,051
Total Cash and Cash Equivalents	<u>\$ 142,257,303</u>	<u>\$ 144,418,139</u>
 Noncash Transactions		
On behalf payments for benefits	<u>\$ 2,183,226</u>	<u>\$ 2,169,934</u>

The accompanying notes are an integral part of these financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENTS OF FIDUCIARY NET ASSETS JUNE 30, 2011 AND 2010

	2011		2010	
	Trust	Agency Funds	Trust	Agency Funds
ASSETS				
Cash and cash equivalents	\$ 777,881	\$ 449,158	\$ 595,039	\$ 407,091
Investments	1,227,925	120,139	1,085,706	119,755
Total Assets	<u>2,005,806</u>	<u>\$ 569,297</u>	<u>1,680,745</u>	<u>\$ 526,846</u>
LIABILITIES				
Due to student groups	-	\$ 569,297	-	\$ 526,846
NET ASSETS				
Unreserved	2,005,806		1,680,745	
Total Net Assets	<u>\$ 2,005,806</u>		<u>\$ 1,680,745</u>	

The accompanying notes are an integral part of these financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
	Trust	Trust
ADDITIONS		
Local revenues	\$ 2,333,017	\$ 2,051,204
DEDUCTIONS		
Classified salaries	242,706	227,462
Employee benefits	31,464	49,965
Books and supplies	681,540	602,376
Services and operating expenditures	1,234,873	1,332,291
Capital outlay	35,703	96,750
Total Deductions	2,226,286	2,308,844
OTHER FINANCING SOURCES		
Operating transfers from primary government	218,330	237,588
Change in Net Assets	325,061	(20,052)
Net Assets - Beginning	1,680,745	1,700,797
Net Assets - Ending	\$ 2,005,806	\$ 1,680,745

The accompanying notes are an integral part of these financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 1 - ORGANIZATION

Organization

The Pasadena Area Community College District (the District) was established in 1967, as a political subdivision of the State of California and provides educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, capital project funds, and proprietary funds, but these budgets are managed at the department level. Currently, the District operates one community college and one community education center located in Pasadena, California. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. The District has evaluated the Pasadena City College Foundation, Inc. and has determined the relationship does not meet the criteria of a component unit and has not included the financial information in this report.

- **The Los Angeles County Schools Regionalized Business Service Corporation**

The Los Angeles County Schools Regionalized Business Service Corporation (the Corporation) is a legally separate organization and a component unit of the District. The Corporation was formed to issue debt specifically for the acquisition and construction of capital assets for the District. The Governing Board of the Corporation and the District are the same. The financial activity has been "blended" or consolidated within the financial statements of the District as if the activity was the District's. Certificates of participation issued by the Corporation are included as long-term obligations of the District. Individually-prepared financial statements are not prepared for the Corporation.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's 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 material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees and auxiliary activities through the bookstore and cafeteria.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable FASB pronouncements issued on or before December 6, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply Financial Accounting Standards Board (FASB) pronouncements after that date. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State Chancellor's Office's *Budget and Accounting Manual*.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Assets - Primary Government
 - Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government
 - Statement of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statement of Fiduciary Net Assets
 - Statement of Changes in Fiduciary Net Assets
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, the imprest revolving fund balance, and demand deposits. In the statement of cash flows, cash includes cash in county treasury pool.

Investments

Investments held at June 30, 2011 and 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State, and/or local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. Management has analyzed these accounts and believes all amounts are fully collectable.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2011.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Inventories

Inventories consist primarily of bookstore merchandise and supplies held for resale to the students and faculty of the college. Inventories are stated at cost, utilizing the weighted average method. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, building improvements, site improvements, and equipment. The District does not possess any infrastructure. The District maintains an initial unit cost capitalization threshold of \$5,000 for equipment and \$100,000 for all other capital assets. Purchased or constructed assets are recorded at historical cost, or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction-in-progress as the expenses are incurred.

Depreciation of capital assets is computed and recorded utilizing the straight-line method, half-year convention. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 50 years; site improvements, 20 years; equipment, 5 to 15 years.

Accrued Liabilities and Long-Term Obligations

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

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as usage, employee resignations, and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid. The District also participates in "load-banking" with eligible academic employees, whereby the employee may teach additional courses in one period in exchange for time off in another period.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, capital lease obligations, OPEB obligations, and supplementary retirement obligations with maturities greater than one year.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets" and represent the difference between assets and liabilities. Net assets are classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Invested in Capital Assets, Net of Related Debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted - Expendable - Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs. None of the District's restricted net assets have resulted from enabling legislation adopted by the District.

Unrestricted - Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$38,824,907 and \$35,017,446 of restricted net assets for 2011 and 2010, respectively.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Los Angeles bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed a General Obligation Bond in March 2002 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

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

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the California State Teachers' Retirement Systems (CalSTRS) on behalf of all community colleges in California.

Estimates

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Interfund Activity

Interfund transfers and interfund receivables and payables for governmental activities are eliminated during the consolidation process in the entity-wide financial statements.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

Comparative Financial Information

Comparative financial information for the prior year has been presented for additional analysis; certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code 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 investment policies do not address risk criteria contained in GASB Statement No. 40.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

The pool is managed by the Los Angeles County Treasurer and is not registered as an investment company with the Securities Exchange Commission. Oversight of the pool is the responsibility of the County Treasury Oversight Committee. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the treasurer follows.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under 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. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, consist of the following:

Primary government	\$ 142,257,303
Fiduciary funds	2,575,103
Total Deposits and Investments	<u>\$ 144,832,406</u>
Cash on hand and in banks	\$ 2,352,483
Cash in revolving	107,500
Investments	142,372,423
Total Deposits and Investments	<u>\$ 144,832,406</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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 manages its exposure to interest rate risk by primarily investing in the County investment pool.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Weighted Average Maturity in Days
County Pool - Los Angeles	\$ 140,492,934	600
Certificates of Deposit	1,305,949	1,238
Stocks	148,002	Not Applicable
Mutual Funds	201,982	Not Applicable
Foreign Currency	7,996	Not Applicable
Municipal Bonds	275,000	8,767
Total	<u>\$ 142,431,863</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The balance of the District's investments include funds held in the County Pool, Certificates of Deposits which are not rated, nor are they required to be rated. Ratings for the District's other investments were not available.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, the District's bank balance of \$3,214,080 was fully insured.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectable in full.

The accounts receivable are as follows:

	Primary Government	
	2011	2010
Federal Government		
Categorical aid	\$ 2,873,223	\$ 1,853,006
State Government		
Apportionment	19,253,907	16,273,426
Categorical aid	117,131	156,424
Lottery	1,664,369	1,554,800
Local Sources		
Interest	398,068	333,197
Other local sources	658,489	1,231,538
Total	<u>\$ 24,965,187</u>	<u>\$ 21,402,391</u>
Student loan receivables	<u>\$ 647,454</u>	<u>\$ 648,373</u>

NOTE 5 - PREPAID EXPENSES

Prepaid expenses consisted of the following:

	Primary Government	
	2011	2010
Prepaid dental insurance premiums	\$ 206,584	\$ 172,415
Prepaid CalPERS premiums	518,811	565,268
Other	147,809	72,547
Total	<u>\$ 873,204</u>	<u>\$ 810,230</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 6 - INTERFUND TRANSACTIONS

Operating Transfers

Operating transfers between District governmental funds are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. These operating transfers have been eliminated through consolidation within the entity-wide financial statements.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2011, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 10,396,408	\$ -	\$ -	\$ 10,396,408
Construction in progress	19,281,817	4,583,669	15,436,492	8,428,994
Total Capital Assets Not Being Depreciated	29,678,225	4,583,669	15,436,492	18,825,402
Capital Assets Being Depreciated				
Buildings and improvements	204,531,976	8,662,449	1,514,515	211,679,910
Site improvements	12,666,324	6,774,043	-	19,440,367
Equipment	15,886,982	995,533	206,758	16,675,757
Total Capital Assets Being Depreciated	233,085,282	16,432,025	1,721,273	247,796,034
Total Capital Assets	262,763,507	21,015,694	17,157,765	266,621,436
Less Accumulated Depreciation				
Buildings and improvements	60,775,271	6,549,873	1,514,515	65,810,629
Site improvements	6,846,378	1,003,506	-	7,849,884
Equipment	10,338,276	1,061,743	198,530	11,201,489
Total Accumulated Depreciation	77,959,925	8,615,122	1,713,045	84,862,002
Net Capital Assets	\$ 184,803,582	\$12,400,572	\$15,444,720	\$ 181,759,434

Depreciation expense for the year was \$8,615,122.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 10,396,408	\$ -	\$ -	\$ 10,396,408
Construction in progress	65,167,063	8,093,680	53,978,926	19,281,817
Total Capital Assets Not Being Depreciated	75,563,471	8,093,680	53,978,926	29,678,225
Capital Assets Being Depreciated				
Buildings and improvements	150,553,050	53,978,926	-	204,531,976
Site improvements	12,666,324	-	-	12,666,324
Equipment	13,821,901	2,245,992	180,911	15,886,982
Total Capital Assets Being Depreciated	177,041,275	56,224,918	180,911	233,085,282
Total Capital Assets	252,604,746	64,318,598	54,159,837	262,763,507
Less Accumulated Depreciation				
Buildings and improvements	55,341,608	5,433,663	-	60,775,271
Site improvements	6,012,223	834,155	-	6,846,378
Equipment	9,679,191	826,974	167,889	10,338,276
Total Accumulated Depreciation	71,033,022	7,094,792	167,889	77,959,925
Net Capital Assets	\$ 181,571,724	\$ 57,223,806	\$ 53,991,948	\$ 184,803,582

Depreciation expense for the year was \$7,094,792.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	Primary Government	
	2011	2010
Accrued payroll and benefits	\$ 7,671,650	\$ 7,458,037
Apportionment	-	119,420
Construction	1,108,766	588,994
Student financial aid payments	1,520,761	-
Vendor payments	1,607,992	1,279,640
Total	\$ 11,909,169	\$ 9,446,091

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 9 - DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

	Primary Government	
	2011	2010
Federal categorical aid	\$ 42,379	\$ 1,330
State categorical aid	1,785,056	2,095,135
Other State revenue	295,457	-
Student fees	1,359,240	2,146,833
Radio agreement	703,829	723,421
Other local	120,364	241,217
Total	<u>\$ 4,306,325</u>	<u>\$ 5,207,936</u>

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2011 fiscal year consisted of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
Bonds and Notes Payable					
General obligation bonds	\$ 128,726,385	\$ 2,176,464	\$ 8,600,000	\$ 122,302,849	\$ 8,480,000
Premium on bonds	9,907,697	-	1,169,747	8,737,950	1,169,747
2003 Certificates of Participation, Series A	2,355,000	-	555,000	1,800,000	575,000
Note payable	219,957	-	219,957	-	-
Total Bonds and Notes Payable	<u>141,209,039</u>	<u>2,176,464</u>	<u>10,544,704</u>	<u>132,840,799</u>	<u>10,224,747</u>
Other Obligations					
Compensated absences	2,270,081	-	561,783	1,708,298	-
Load banking	567,747	-	192,693	375,054	-
Capital leases	311,814	-	94,969	216,845	100,954
Other postemployment benefits (net)	1,510,376	1,648,124	956,199	2,202,301	-
PARS supplementary retirement plan	-	6,309,315	-	6,309,315	1,261,863
Total Other Obligations	<u>4,660,018</u>	<u>7,957,439</u>	<u>1,805,644</u>	<u>10,811,813</u>	<u>1,362,817</u>
Total Long-Term Obligations	<u>\$ 145,869,057</u>	<u>\$ 10,133,903</u>	<u>\$ 12,350,348</u>	<u>\$ 143,652,612</u>	<u>\$ 11,587,564</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

The changes in the District's long-term obligations during the 2010 fiscal year consisted of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
Bonds and Notes Payable					
General obligation bonds	\$ 89,953,106	\$ 58,130,557	\$ 9,449,581	\$ 138,634,082	\$ 9,769,747
2003 Certificates of Participation, Series A	2,890,000	-	535,000	2,355,000	555,000
Note payable	429,750	-	209,793	219,957	219,957
Total Bonds and Notes Payable	<u>93,272,856</u>	<u>58,130,557</u>	<u>10,194,374</u>	<u>141,209,039</u>	<u>10,544,704</u>
Other Obligations					
Compensated absences	2,565,451	-	295,370	2,270,081	-
Load banking	870,160	-	302,413	567,747	-
Capital leases	416,366	-	104,552	311,814	94,969
Other postemployment benefits (net)	719,096	1,728,655	937,375	1,510,376	-
Total Other Obligations	<u>4,571,073</u>	<u>1,728,655</u>	<u>1,639,710</u>	<u>4,660,018</u>	<u>94,969</u>
Total Long-Term Obligations	<u>\$ 97,843,929</u>	<u>\$ 59,859,212</u>	<u>\$ 11,834,084</u>	<u>\$ 145,869,057</u>	<u>\$ 10,639,673</u>

Description of Debt

Payments of the general obligation bonds are to be made by the Bond Interest and Redemption Fund with local property tax collections. Payments for the certificates of participation (COPs) and the notes payable obligation are made by the Other Debt Service Fund. The compensated absences will be paid by the fund for which the employee worked. Capital lease payments are made out of the unrestricted General Fund. Load banking obligations are paid primarily from the unrestricted General Fund. The OPEB obligation will be paid primarily from the Unrestricted General Fund. The PARS Supplementary Retirement Obligation will be paid from the Unrestricted General Fund.

General obligations bonds were approved by a local election in March 2002. The total amount approved by the voters was \$150,000,000. Interest rates range from 2.000 percent to 6.654 percent. The bonds have been issued to finance the voter approved facilities acquisition and construction. At June 30, 2011, \$149,857,000 had been issued and \$122,302,849 was outstanding, exclusive of any premiums on the bonds.

In July 2006, the District issued 2006 Series C refunding bonds. The purpose of Series C was to advance refund previously issued Series A bond maturities totaling \$21,820,000. The Series A bonds refinanced include the maturities beginning June 1, 2014 to June 1, 2023, and a maturity of June 1, 2028. An irrevocable trust was established with proceeds sufficient to make all future payments on the bonds. This is a defeasance "in-substance" and legally satisfies the previously issued bonds. As such, the obligation is not reported in the financial statements of the District. The bonds remain outstanding, and at June 30, 2011, the outstanding balance is \$19,422,849.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Build America Bonds

In October 2009, the District issued General Obligation Bonds: \$26,705,000 Series D General Obligation Bonds and \$25,295,000 Series E Bonds. The Series E Bonds are Build America Bonds. The repayment of the interest on these bonds is subsidized by the U.S. Treasury.

The 2003 Certificates of Participation were issued in September 2003 in the amount of \$5,380,000 to prepay its proportionate share of the 1993 Certificates of Participation Series A. At June 30, 2011, the balance outstanding was \$1,800,000. The certificates mature through 2014 with interest rates ranging from 2.000 percent to 4.625 percent.

The notes payable were issued in 1996 in the amount of \$2,240,000 to fund energy-retrofitting projects throughout the District. At June 30, 2011, the total balance outstanding had been repaid.

The District has utilized capital leases purchase agreements to purchase equipment. The current lease purchase agreements will be paid through 2014.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

General Obligation Bonds, 2002 Series:

Bonds	Issue Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2010	Accretion Additions/ Issuances	Redeemed	Bonds Outstanding June 30, 2011
A	6/1/2003	2%-5%	\$ 33,000,000	\$ 2,835,000	\$ -	\$ 910,000	\$ 1,925,000
B	7/12/2006	4.5%-5.3%	65,000,000	50,590,000	-	1,635,000	48,955,000
C	7/12/2006	3.9%-4.4%	22,657,774	23,301,385	2,176,464	6,055,000	19,422,849
D	10/15/2009	3%-5 %	26,705,000	26,705,000	-	-	26,705,000
E	10/15/2009	6.5%- 6.6%	25,295,000	25,295,000	-	-	25,295,000
Unamortized premiums:							
B				1,729,684	-	78,622	1,651,062
C				4,739,210	-	947,842	3,791,368
D and E				3,438,803	-	143,283	3,295,520
				<u>\$ 138,634,082</u>	<u>\$ 2,176,464</u>	<u>\$ 9,769,747</u>	<u>\$ 131,040,799</u>

General Obligation Bond 2002 Series A

The general obligation bonds mature through 2013 as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 945,000	\$ 77,000	\$ 1,022,000
2013	980,000	39,200	1,019,200
Total	<u>\$ 1,925,000</u>	<u>\$ 116,200</u>	<u>\$ 2,041,200</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

General Obligation Bond 2002 Series B

The general obligation bonds mature through 2032 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,395,000	\$ 2,375,125	\$ 3,770,125
2013	1,460,000	2,310,888	3,770,888
2014	1,525,000	2,243,725	3,768,725
2015	1,600,000	2,173,413	3,773,413
2016	1,670,000	2,099,838	3,769,838
2017-2021	9,600,000	9,194,075	18,794,075
2022-2026	12,330,000	6,376,537	18,706,537
2027-2031	15,750,000	2,893,855	18,643,855
2032	3,625,000	90,625	3,715,625
Total	<u>\$ 48,955,000</u>	<u>\$ 29,758,081</u>	<u>\$ 78,713,081</u>

General Obligation Bond 2006 Series C

The general obligation bonds mature through 2015 as follows:

<u>Fiscal Year</u>	<u>Principal (Including Accreted Interest to Date)</u>	<u>Accreted Interest</u>	<u>Total</u>
2012	\$ 5,750,319	\$ 299,681	\$ 6,050,000
2013	5,280,611	869,389	6,150,000
2014	4,502,823	1,302,177	5,805,000
2015	3,889,096	1,660,904	5,550,000
Total	<u>\$ 19,422,849</u>	<u>\$ 4,132,151</u>	<u>\$ 23,555,000</u>

General Obligation Bond 2002 Series D

The general obligation bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 90,000	\$ 1,266,350	\$ 1,356,350
2013	110,000	1,263,350	1,373,350
2014	860,000	1,248,800	2,108,800
2015	1,485,000	1,206,200	2,691,200
2016	1,545,000	1,145,600	2,690,600
2017-2021	8,805,000	4,586,600	13,391,600
2022-2026	11,220,000	2,105,000	13,325,000
2027	2,590,000	64,750	2,654,750
Total	<u>\$ 26,705,000</u>	<u>\$ 12,886,650</u>	<u>\$ 39,591,650</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

General Obligation Bond 2002 Series E

The general obligation bonds mature through 2035 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 1,668,642	\$ 1,668,642
2013	-	1,668,642	1,668,642
2014	-	1,668,642	1,668,642
2015	-	1,668,642	1,668,642
2016	-	1,668,642	1,668,642
2017-2021	-	8,343,209	8,343,209
2022-2026	-	8,343,209	8,343,209
2027-2031	11,590,000	6,868,961	18,458,961
2032-2035	13,705,000	1,871,603	15,576,603
Total	<u>\$ 25,295,000</u>	<u>\$ 33,770,192</u>	<u>\$ 59,065,192</u>

2003 Certificates of Participation Series A

The certificates of participation mature through 2014 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 575,000	\$ 63,625	\$ 638,625
2013	600,000	40,125	640,125
2014	625,000	14,063	639,063
Total	<u>\$ 1,800,000</u>	<u>\$ 117,813</u>	<u>\$ 1,917,813</u>

Compensated Absences

Vacation earned, but not used, is accumulated and paid in accordance with the bargaining unit agreements of the classified employees of the District. The total accumulated unpaid employee vacation for the District at June 30, 2011 and 2010, is \$1,708,298 and \$2,270,081, respectively.

Load Banking

In accordance with the bargaining unit agreement with faculty, unpaid excess courses taught by faculty may be exchanged for reduced teaching load in future terms. The value is based on the salary of the faculty member when earned and is calculated using full-time equivalent units. The accumulated unused value at June 30, 2011 and 2010, is \$375,054 and \$567,747, respectively.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Capital Leases

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

Balance, July 1, 2010	\$ 348,707
Payments	106,206
Balance, June 30, 2011	<u>\$ 242,501</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2012	\$ 100,954
2013	97,660
2014	43,887
Total	<u>242,501</u>
Less: Amount Representing Interest	<u>(25,656)</u>
Present Value of Minimum Lease Payments	<u>\$ 216,845</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2011, was \$1,608,500, and contributions made by the District during the year were \$956,199. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$75,519 and (\$35,895), respectively, which resulted in an increase to the net OPEB obligation of \$691,925. As of June 30, 2011, the net OPEB obligation was \$2,202,301. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

PARS Supplementary Retirement Plan

On June 1, 2011, the District's Governing Board adopted a resolution adopting a supplementary retirement plan as an early retirement incentive for senior academic, classified and management employees. The District worked with Public Agency Retirement Services (PARS) to create a plan for classified and academic employees employed as of February 2, 2011, with five years of District service and having reached the age of 55. The employees will be paid 75 percent of their salary for the last year of service. The following represents the District's outstanding obligation.

<u>Fiscal Year</u>	<u>Annual Payment</u>
2012	\$ 1,261,863
2013	1,261,863
2014	1,261,863
2015	1,261,863
2016	1,261,863
Total	<u>\$ 6,309,315</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan. The District provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 426 retirees receiving benefits and 659 active Plan members.

Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2010-2011, the District contributed \$956,199 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 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	\$ 1,608,500
Interest on net OPEB obligation	75,519
Adjustment to annual required contribution	(35,895)
Annual OPEB cost (expense)	<u>1,648,124</u>
Contributions made	<u>(956,199)</u>
Increase in net OPEB obligation	691,925
Net OPEB obligation, beginning of year	<u>1,510,376</u>
Net OPEB obligation, end of year	<u><u>\$ 2,202,301</u></u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 1,724,551	\$ 1,005,455	58%	\$ 719,096
2010	1,728,655	937,375	54%	1,510,376
2011	1,648,124	956,199	58%	2,202,301

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2011, valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 13,381,136
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 13,381,136</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	<u>\$ 51,831,265</u>
UAAL as Percentage of Covered Payroll	<u>26%</u>

The above noted actuarial accrued liability was based on the June 10, 2010, actuarial valuation. Actuarial valuation of an ongoing plan involves 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 contribution 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, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The District has not established an irrevocable trust for the purpose of funding postemployment benefits, but has designated resources in the amount of \$15,598,490 for this purpose. A designation is not a binding commitment and is not included in the actuarial determination of plan assets as the election to set aside funds is not the equivalent of irrevocable trust. Funding the benefits is not required by GASB Statement No. 45.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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 the 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 values of assets, consistent with the long-term perspective of the calculations.

In the June 10, 2010, actuarial valuation, the entity age normal method was used. The actuarial assumptions included a five percent investment rate of return. Healthcare cost trend rates are expected to increase four percent per year. The UAAL is being amortized at a level percentage of payroll. The remaining amortization period at July 1, 2011, was 27 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 12 - RISK MANAGEMENT

Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District acquires coverage through joint powers authorities described in the following paragraph. The District provides health insurance benefits to eligible District employees, their families, and retired employees of the District.

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2011, the District contracted with the Statewide Association of Community Colleges (SWACC) Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been any reduction in coverage from the prior year.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Workers' Compensation

For fiscal year 2011, the District participated in the Schools Alliance for Workers' Compensation Excess II (SAWCX II) JPA, an insurance purchasing pool. The District is self insured for the first \$500,000 of each workers' compensation claim. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

<u>Insurance Program/Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Self-Insured	Property and Liability	\$ 25,000/\$50,000
SWACC	Liability	5,000,000
SWACC	Property	250,000,000
SELF	Excess Liability	20,000,000
Self-Insured	Workers' Compensation	1,000,000
SAWCX II	Excess Workers' Compensation	25,000,000

Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. Amounts recorded for workers' compensation are based on actuarial estimates while amounts for property and liability are based on management estimates. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2010 to June 30, 2011:

	<u>Workers Compensation</u>	<u>Property and Liability</u>
Liability Balance, July 1, 2010	\$ 1,250,000	\$ 178,954
Claims and changes in estimates	2,888,729	186,665
Claims payments	(507,729)	(140,619)
Liability Balance, June 30, 2011	<u>\$ 3,631,000</u>	<u>\$ 225,000</u>
Assets Available to Pay Claims at June 30, 2011	<u>\$ 1,806,951</u>	<u>\$ 741,508</u>

At June 30, 2011, the Workers' Compensation fund had a deficit ending balance of \$(1,829,860). This deficit is being addressed through increased insurance and increased charges to the District and employees.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active members of the DB Plan are required to contribute 8.0 percent of their salary while 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$4,223,334, \$4,276,079, and \$4,465,113, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Funding Policy

Active members of the DB Plan are required to contribute 8.0 percent of their salary while 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 District's contribution rate to CalPERS for fiscal year 2010-2011 was 10.707 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2011, 2010, and 2009, were \$2,421,742, \$2,232,050, and \$2,128,647, respectively, and equaled 100 percent of the required contributions for each year.

On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to \$2,183,226, \$2,169,934, and \$2,444,717, and (4.267 percent) of salaries subject to CalSTRS for the years ended June 30, 2011, 2010, and 2009, respectively. No contributions from the State were made for CalPERS for the year ended June 30, 2011. These amounts have been reflected in the financial statements as a component of nonoperating revenue and employee benefit expense.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. Only CalPERS members are covered by social security. All others who are not members of CalSTRS are members of an alternative retirement plan referred to as APPLE.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Statewide Association of Community Colleges (SWACC) JPA and Schools Excess Liability Fund (SELF). The District pays premiums for its property liability and excess liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The District is also a member of the Schools Alliance for Workers' Compensation Excess II (SAWCX II) JPA. The District pays premiums for excess workers' compensation coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

During the year ended June 30, 2011, the District made payments of \$683,259, \$132,704, and \$47,819 to SWACC, SAWCX II, and SELF, respectively.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 15 - RELATED PARTY TRANSACTIONS

The District and the Pasadena City College Foundation (the Foundation) provide mutually beneficial services to each other and to the students of the District. The Foundation is a separate not for profit organization under the Internal Revenue Code Section 501 (c)(3). The Foundation has a separate Board of Directors and has been determined not to be a component unit under GASB Statement No. 39. During the 2010-2011 year, the District has provided office space and supplies to the Foundation and the employees of the Foundation are District employees; however 50 percent of the cost of the salaries and benefits is reimbursed by the Foundation. The value of the office space and miscellaneous supplies has not been calculated or valued. The Foundation provided \$316,717 in scholarships to the students of the District, and \$416,301 in program support and grants to support the programs and services of the Foundation. Additionally, the Foundation received equipment in the amount of \$169,582 from donors that was passed through to the District for use in various programs.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Deferral of State Apportionments

Certain apportionments owed to the District for funding of FTES, which are attributable to the 2010-2011 fiscal year have been deferred to the 2011-2012 fiscal year. The total amount of funding deferred into the 2011-2012 fiscal year was \$19,253,907. As of July 31, 2011, this amount has been received.

Fiscal Issues Relating to State-Wide Funding Reductions

The State of California economy is continuing through a recessionary period. The California Community College system is reliant on the State of California to appropriate the funding necessary to provide for the educational services and student support programs that are mandated for the colleges. Current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for California community colleges in addition to requiring substantial budget reductions.

The District has implemented budgetary reductions to counter the reductions in apportionment and program funding. However, continued reductions and deferral of cash payments will ultimately impact the District's ability to meet the goals for educational services.

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Litigation

The District is involved in various litigation 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, 2011.

Operating Leases

The District has entered into various lease agreements for facilities that, by nature, are considered operating leases. The outstanding commitment is approximately \$4.9 million.

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECTS	Remaining Construction Commitments	Expected Year of Completions
Arts Building	\$ 28,855,147	2012
C - Building Access Compliance	25,908	Ongoing
Campus Center	34,912	Ongoing
Campus Remodeling	130,366	Ongoing
Classroom Conversions	132,576	Ongoing
Electrical Upgrade	21,011	Ongoing
Elevator Upgrades	45,740	Ongoing
IT Building	12,800	Ongoing
Lighting Upgrade	40,000	Ongoing
Technology Upgrade Plan	201,225	2012
U - Building	183,038	Ongoing
Construction Management	562,667	Ongoing
	<u>\$ 30,245,390</u>	

REQUIRED SUPPLEMENTARY INFORMATION

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
August 25, 2008	\$ -	\$ 13,305,204	\$ 13,305,204	0%	\$ 60,439,599	22%
June 10, 2010	-	13,381,136	13,381,136	0%	51,831,265	26%

SUPPLEMENTARY INFORMATION

PASADENA AREA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2011

The Pasadena Area Community College District was established in 1967 and is located in Los Angeles County. There were no changes in the boundaries of the District during the current year. The District's college is accredited by the Accrediting Commission for Community and Junior Colleges, and the Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. William Thomson	President	November 2011
Mr. Geoffrey L. Baum	Vice President	November 2013
Mr. John Martin	Clerk	November 2011
Ms. Belinda Brown	Member	November 2013
Dr. Anthony Fellow	Member	November 2013
Dr. Jeanette Mann	Member	November 2011
Ms. Linda Wah	Member	November 2011
Mr. Alexander Soto	Student Trustee	June 30, 2011

ADMINISTRATION

Dr. Mark W. Rocha	President and District Superintendent
Dr. Richard P. van Pelt	Interim, Vice President, Administrative Services
Dr. Jacqueline Jacobs	Vice President, Instruction
Dr. Lisa Sugimoto	Interim, Vice President, College Advancement
Dr. Stuart Wilcox	Interim, Vice President, Student and Learning Services
Mrs. Elaine Chapman	Interim Dean, External Relations
Mr. Robert B. Miller	Interim Dean, Enrollment Management
Ms. Crystal Kollross	Interim Dean, Planning and Research
Mr. Lyle Engelingda	Dean, Human Resources

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
TRIO Cluster (Direct Funded):			
TRIO - Student Support Services and Student Grants	84.042A		\$ 282,283
TRIO - Upward Bound	84.047A		283,403
TRIO - Upward Bound Math and Science	84.047M		262,256
Subtotal TRIO Cluster			<u>827,942</u>
Passed through from California Community Colleges Chancellor's Office			
CTEA Title I-C	84.048	10-C01-040	735,556
CTEA II, Tech-Prep Education Grant	84.243	10-139-770	69,708
Passed through the California Department of Education			
Adult Education and Family Literacy Act - Adult Basic Education	84.002A	14508	249,512
XL for Life: Transforming Developmental Education at PCC to Improve			
Hispanic Student Success	84.031S		380,649
CCAMPIS - Child Development Program	84.355A		144,137
Passed through from California Community Colleges Chancellor's Office			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	[1]	42,334
Student Financial Assistance Cluster (Direct Funded):			
Pell Grant	84.063		31,189,291
Pell Grant Administration Grant	84.063		41,920
Supplemental Educational Opportunity Grant	84.007		439,929
Supplemental Educational Opportunity Grant Administration	84.007		28,193
Federal Work-Study Program	84.033		454,885
Federal Work-Study Program - Administrative Cost Allocation	84.033		30,686
Federal Direct Student Loans	84.268		2,223,242
Academic Competitiveness Grants	84.375		151,643
Nursing Loan Program	93.364		28,938
Total Student Financial Assistance Cluster			<u>34,588,727</u>
Total U.S. Department of Education			<u>35,416,669</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the California Community Colleges Chancellor's Office			
Foster Care Education Program	93.658	[1]	62,538
Personal and Home Care Aide State Training Program (PHCAST)	93.512	F10-0062	39,437
Temporary Assistance for Needy Families (TANF)	93.558	[1]	47,305
Passed through the County of Los Angeles Department of Social Services			
Temporary Assistance for Needy Families (TANF)	93.558	CCS09010	87,141
Passed through the Foundation for California Community Colleges			
TANF, Child Development Careers	93.575	1012-31	41,749

[1] Pass-Through Identifying Number not available.

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Program Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Passed through the California Department of Education			
Child Care and Development Block Grant	93.575	000324	\$ 125,068
Child Care and Development Block Grant - Mandatory Match	93.596	000321	111,467
ARRA – Child Care and Development Block Grant - CCAP	93.713	000344	698
ARRA – Child Care and Development Block Grant - CRPM	93.713	000343	6,667
Passed through the Foundation for California Community Colleges			
Youth Empowerment Strategies for Success - Los Angeles (YESS-LA)	93.674	[1]	75,532
Passed through the Community College Foundation			
Model Approach to Partnership in Parenting (MAPP)	93.674	806-120	22,500
Total Department of Health and Human Services			<u>620,102</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665		75,309
Passed through the California Department of Education			
Child and Adult Care Food Program	10.558A	3278-1A	49,888
Total US Department of Agriculture			<u>125,197</u>
U.S. DEPARTMENT OF LABOR			
Passed through the California Community Colleges Chancellor's Office			
ARRA - Economic Stimulus Program Funds for Phase II, Allied Health Program Expansion	17.258	09-127-11	362,013
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Education	64.000		3,444
NATIONAL SCIENCE FOUNDATION			
Providing More to Increase Stem Majors	47.076		132,838
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Passed through Foothill-DeAnza Community College District			
Aurora Project	43.001	GSA2011-004	6,877
SMALL BUSINESS ADMINISTRATION			
Small Business Development	59.037		52,061
Total Federal Expenditures			<u>\$ 38,341,097</u>

[1] Pass-Through Identifying Number not available.

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2011

PROGRAM	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Associate Degree Nursing	\$ 118,187	\$ -	\$ 118,187
Biotechnology Hub	40,000	16,725	56,725
Bridges to Stem Cell Research	583,497	216,115	799,612
CTE 140 Community Collaborative Projects	310,000	259,987	569,987
CTE 141 Collaborative Supplemental	79,000	80,230	159,230
CTE 142 Workforce Innovative Partnership	150,000	201,106	351,106
Basic Skills	177,540	20,734	198,274
Cal Grant "B"	1,900,000	6,584	1,906,584
Cal Grant "C"	25,000	-	25,000
CalWORKS	275,483	-	275,483
Child Development Program	13,333	-	13,333
Child Development Program	305,763	-	305,763
Child Development Program	5,200	1,406	6,606
Cooperative Agencies Resources for Education (CARE)	74,971	-	74,971
Curriculum Development	-	67,126	67,126
Disabled Students Program and Services (DSPS)	651,636	-	651,636
Economic Development - Applied Biological Technology	205,000	-	205,000
Extended Opportunity Program and Services (EOP&S)	92,285	-	92,285
Extended Opportunity Program and Services (EOP&S)	-	21,502	21,502
Extended Opportunity Program and Services (EOP&S)	686,807	29,683	716,490
Faculty/Staff Professional Development	-	10,028	10,028
Foster Care Education Program	70,408	-	70,408
Human Resources Tech Training	-	1,760	1,760
Instructional Equipment	-	27,446	27,446
Matriculation - Administration	349,965	-	349,965
Matriculation - Administration	-	229,877	229,877
Matriculation - Credit	599,391	-	599,391
Matriculation - Non Credit	173,925	-	173,925
Matriculation - Non Credit	-	27,604	27,604
MESA	50,500	11,913	62,413
Puente Program Mentor	1,500	-	1,500
SFAA Augmentation	571,545	-	571,545
Staff Diversity - AB1725	9,913	35,704	45,617
Student Financial Aid Administration	199,232	-	199,232
Student Services Automated Reporting	103,415	-	103,415
Telecommunications and Technology	9,389	-	9,389

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
\$ 99,277	\$ 18,910	\$ -	\$ 118,187	\$ 118,187
40,725	1,279	-	42,004	42,004
795,934	-	297,958	497,976	497,976
969,988	-	597,686	372,302	372,302
289,229	-	178,265	110,964	110,964
351,106	-	78,812	272,294	272,294
198,274	-	55,489	142,785	142,785
1,892,135	-	3,532	1,888,603	1,888,603
16,560	-	-	16,560	16,560
275,484	-	9,431	266,053	266,053
-	13,333	-	13,333	13,333
216,736	2,535	-	219,271	219,271
2,760	231	-	2,991	2,991
74,971	-	-	74,971	74,971
67,126	-	-	67,126	67,126
651,636	-	-	651,636	651,636
123,000	63,567	-	186,567	186,567
92,285	-	48,890	43,395	43,395
21,491	-	-	21,491	21,491
716,490	-	-	716,490	716,490
10,028	-	459	9,569	9,569
53,132	17,276	-	70,408	70,408
1,760	-	-	1,760	1,760
27,446	-	23,535	3,911	3,911
349,965	-	262,313	87,652	87,652
229,877	-	47,752	182,125	182,125
599,391	-	-	599,391	599,391
173,925	-	41,063	132,862	132,862
27,604	-	-	27,604	27,604
49,789	-	155	49,634	49,634
1,500	-	-	1,500	1,500
571,545	-	-	571,545	571,545
45,617	-	26,912	18,705	18,705
199,232	-	-	199,232	199,232
103,415	-	103,415	-	-
9,389	-	9,389	-	-
\$ 9,348,822	\$ 117,131	\$ 1,785,056	\$ 7,680,897	\$ 7,680,897

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT AS OF JUNE 30, 2011

CATEGORIES	Revised Data*	Audit Adjustments ¹	Audited Data
A. Summer Intersession			
1. Noncredit	159	-	159
2. Credit	1,408	-	1,408
B. Summer Intersession			
1. Noncredit	-	-	-
2. Credit	-	-	-
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	17,160	-	17,160
(b) Daily Census Contact Hours	1,555	-	1,555
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	1,265	-	1,265
(b) Credit	462	(6)	456
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,066	-	1,066
(b) Daily Census Contact Hours	155	-	155
D. Total FTES	<u>23,230</u>	<u>(6)</u>	<u>23,224</u>
E. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	499	-	499
2. Credit	880	-	880
	<u>1,379</u>	<u>-</u>	<u>1,379</u>

*Revised August 3, 2011

¹ As reported in the State Awards Findings and Questioned Costs 2011-09.

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements.

	Internal Service Fund
June 30, 2011, Annual Financial and Budget Report (CCFS-311)	
Reported Fund Balance	\$ 19,204,008
Adjustments to Decrease Fund Balance	
Claims liability	(2,030,136)
Audited Fund Balance	<u>\$ 17,173,872</u>

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2011

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance and Due to Student Groups:

General Fund	\$ 22,506,564
Special Revenue Funds	155,827
Capital Project Funds	92,761,746
Debt Service Funds	13,175,104
Enterprise Funds	2,748,284
Internal Service Funds	17,173,872
Fiduciary Funds	3,268,018

Total Fund Balance and Due to Student Groups

- All District Funds \$ 151,789,415

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	266,782,383	
Accumulated depreciation is	(85,022,949)	
Less fixed assets already recorded in the enterprise fund	(29,837)	181,729,597

Amounts held in trust on behalf of others (Trust and Agency Funds).

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(2,575,103)
	(2,258,272)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

Bonds payable	131,040,799	
Certificates of participation	1,800,000	
Compensated absences (vacations)	1,708,298	
Load banking	375,054	
Capital leases payable	216,845	
Other postemployment benefits (net)	2,202,301	
PARS supplementary retirement plan	6,309,315	
Total Long-Term Obligations		(143,652,612)
Total Net Assets		<u><u>\$ 185,033,025</u></u>

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

Schedule of Expenditures of Federal Awards (SEFA)

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The following schedule reconciles revenues in the statement of revenues, expenses, and changes in net assets with the expenditures reported on the SEFA.

	CFDA Number	Program Expenditures
Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Assets:		\$ 38,604,171
Build America Bonds subsidies	*	(292,012)
Nursing Loan Program	93.364	28,938
Total Schedule of Expenditures of Federal Awards		<u>\$ 38,341,097</u>

* Build America Bonds and Single Audit

The District issued General Obligation Bonds, 2002 Series E that are Build America Bonds. The repayment of these bonds is subsidized by the U.S. Treasury. The Bonds are not subject to the Office of Management and Budget A-133 requirements and are, therefore, not included in the schedule of expenditures of Federal awards.

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

Schedule of Workload Measures for State General Apportionment

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

Schedule of Workload Measures for State General Apportionment

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

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements

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

Reconciliation of the Governmental Funds to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

INDEPENDENT AUDITORS' REPORTS



**INDEPENDENT AUDITORS' 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***

Board of Trustees
Pasadena Area Community College District
Pasadena, California

We have audited the basic financial statements of Pasadena Area Community College District (the District) and its discretely presented component unit for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 6, 2011. We conducted our audits 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

The management of Pasadena Area Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered Pasadena Area Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pasadena Area Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pasadena Area Community College 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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2011-1 and 2011-2. A *significant deficiency* is a deficiency, or a 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pasadena Area Community College 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 audits 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 responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vaurine, Irine, Day & Co. LLP

Rancho Cucamonga, California
December 6, 2011



**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**

Board of Trustees
Pasadena Area Community College District
Pasadena, California

Compliance

We have audited Pasadena Area Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pasadena Area Community College District's major Federal programs for the year ended June 30, 2011. Pasadena Area Community College District's major Federal programs are identified in the summary of auditors' 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 Pasadena Area Community College District's management. Our responsibility is to express an opinion on Pasadena Area Community College 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 Pasadena Area Community College 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 Pasadena Area Community College District's compliance with those requirements.

In our opinion, Pasadena Area Community College District complied, in all material respects, with the compliance requirements referred to above could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as 2011-3 through 2011-5.

Internal Control Over Compliance

The management of Pasadena Area Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Pasadena Area Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program 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 Pasadena Area Community College District's internal control over compliance.

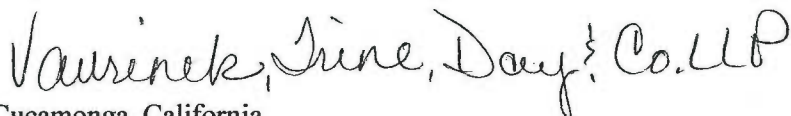
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 over compliance, 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 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.

A significant deficiency in internal control over compliance is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-3 through 2011-5 to be significant deficiencies.

Pasadena Area Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Pasadena Area Community College District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Rancho Cucamonga, California
December 6, 2011



REPORT ON STATE COMPLIANCE

Board of Trustees
Pasadena Area Community College District
Pasadena, California

We have audited the basic financial statements of Pasadena Area Community College District (the District), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 6, 2011.

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 of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Pasadena Area Community College District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Pasadena Area Community College District's compliance with the State laws and regulations applicable to the following items:

Section 421	Salaries of Classroom Instructors: 50 Percent Law
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Required Data Elements
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 431	Gann Limit Calculation
Section 432	Enrollment Fee
Section 433	CalWORKS – Use of State and Federal TANF Funding
Section 435	Open Enrollment
Section 437	Student Fee – Instructional Materials and Health Fees
Section 473	Economic and Workforce Development (EWD)
Section 474	Extended Opportunity Programs and Services (EOPS)
Section 475	Disabled Student Programs and Services (DSPS)
Section 477	Cooperative Agencies Resources for Education (CARE)
Section 478	Preference for Veterans and Qualified Spouses for Federally Funded Qualified Training Programs
Section 479	To Be Arranged Hours (TBA)

The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore the compliance tests within this section were not applicable.

Based on our audit, we found that for the items tested, the Pasadena Area Community College District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as items 2011-6 and 2011-7. Our audit does not provide a legal determination on Pasadena Area Community College District's compliance with the State laws and regulations referred to above.

Pasadena Area Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Pasadena Area Community College District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of the Board of Trustees, Audit Committee, District Management, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Vaurinek, Hine, Day & Co. LLP

Rancho Cucamonga, California
December 6, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063, 84.268, 84.375, and 93.364	<u>Student Financial Assistance Cluster</u>
17.258 (ARRA)	<u>ARRA - Economic Stimulus Program Funds for Phase II, Allied Health Program Expansion</u>
84.042A, 84.047A, and 84.047M	<u>TRIO Cluster</u>
84.048	<u>CTEA Title I-C</u>
84.031S	<u>XL for Life: Transforming Developmental Education at PCC to Improve Hispanic Student Success</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent significant deficiencies, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2011-1 Financial Condition

Criteria or Specific Requirement

The District is required to maintain an operating budget in compliance with the criteria and standards developed by the State Chancellor's Office. The criteria and standards place an emphasis on meeting financial obligations in both the current year and subsequent years.

Condition

Significant Deficiency - The Internal Service Fund which provides for the Workers' Compensation self-insurance program ended the year in a negative position by approximately \$1.8 million. The primary component of the deficit is the recognition of ultimate cost of claims and expenses associated with all reported and unreported claims which has been actuarially determined to be in excess of \$3.6 million for the Workers' Compensation program. Absent any additional funding, this liability could become an obligation of the General Fund.

Effect

The obligation to provide for an adequate reserve for claims liabilities will have a negative impact to the unrestricted General Fund and may result in reserve levels being reduced below the requirements of the State Chancellor's Office.

Recommendation

Setting the internal funding level as a per payroll dollar rate that will provide adequate funding for these long-term obligations and will help to ensure adequate funds are available for the stated purpose. While the internal per payroll rate currently in place is providing funding for current claims, it appears as though this rate is not sufficient to cover the long-term obligations. We recommend this rate structure be reviewed and updated to provide adequate funding.

District Response

The District has increased the rate structure and has increased the rate from 1 percent to 1.15 percent. Additionally, the District will investigate both an insurance stop-loss option and budget options to decrease the unfunded liabilities.

2011-2 System Access

Criteria or Specific Requirement

Industry standards and proper internal controls require review of access control to the various computer systems of the District to ensure that assigned access levels are appropriate and that terminated employees are removed from the system.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

Condition

During our review of the Human Resources (HR) and Payroll access levels, it was noted that one employee outside of the HR department has access to the HR/Payroll system with the ability to add employees, input time, and make payroll adjustments. It was also noted that multiple employees in the Fiscal Services department have the ability to change HR information and multiple employees in the Payroll department have the ability to change Position Control information. Additionally, it was noted that one employee in the Fiscal Services department has the ability to change the number of hours worked for employees. One payroll employee who retired over a year ago was still on the HRS system as an authorized user.

Effect

Without adequate controls over system access the District is at risk of not segregating incompatible functions. This will increase the risk of inappropriate payments to employees. Additionally, if the District is not removing access for terminated employees, there is a risk of unauthorized changes to payroll information.

Recommendation

The District should implement procedures to review computer system access on a regular basis and ensure access granted to individual employees is appropriate based on the employee's job duties. Additionally, this review should include procedures to remove terminated employees.

District Response

The District has reviewed its processes to increase system security, particularly for terminated employees. Procedures will be tightened to ensure denial of access for terminated employees.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent significant deficiencies, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

2011-3 **PROCUREMENT, SUSPENSION, AND DEBARMENT**

Federal Program Affected

U.S. Department of Education Career and Technical Education (CFDA #84.048); U.S. Department of Labor ARRA – Economic Stimulus Program Funds for Phase II, Allied Health Program Expansion (CFDA #17.258).

Compliance Requirement

Procurement, Suspension, and Debarment

Criteria or Specific Requirement

Title 34 - Education, Part 80 - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments - Subpart C - Pre-Award Requirements, Section 80.35. OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Sub-Part C, Pre-Award Requirements, Section .33 Debarment and Suspension.

Condition

The District does not have policies and procedures in place necessary to ensure that the District is not violating Federal suspension and debarment regulations.

Questioned Costs

None.

Context

Of the 11 transactions selected for testing, four expenditures were to vendors receiving in excess of \$25,000. Evidence that the EPLS system had been verified was not evident.

Effect

The District is at risk of contracting with a vendor that is suspended or debarred.

Cause

The District has not updated its Policies and Procedures to match the Federal regulations.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

The District must verify that entities contracted with for services are not suspended or debarred or otherwise excluded from providing services. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction which states the entity is not suspended or debarred. The information contained in the EPLS is available in printed and electronic formats.

District Response

The District has implemented an additional step in the purchase order approval process to ensure that contracted entities are not suspended or debarred or otherwise excluded from providing services.

2011-4 STUDENT FINANCIAL AID ELIGIBILITY

Federal Program Affected

U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Supplemental Education Opportunity Grant (FSEOG) (CFDA #84.007), Federal Pell Grant Program (CFDA #84.063), Federal Direct Student Loans (CFDA #84.268), Federal Work-Study Program (CFDA #84.033), and Academic Competitiveness Grant (CFDA #84.375)

Compliance Requirement

Eligibility.

Criteria or Specific Requirement

34 CFR Section 668.32(a): A student is eligible to receive Title IV assistance if the student is a regular student enrolled, or accepted for enrollment, in an eligible program.

Condition

Significant Deficiency. It was noted that the District Student Financial Aid Office does not have procedures in place to determine if recipients of financial aid are enrolled in an eligible program.

Questioned Costs

None.

Context

For each of the 40 student files tested, we noted documentation indicating the review of the enrolled program was not maintained.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Effect

The District Student Financial Aid Office is at risk of disbursing Federal financial aid funds to students enrolled in ineligible programs.

Cause

The District Student Financial Aid Office had not updated its procedures to provide steps for ensuring that the students disbursed financial aid funds are in an eligible program.

Recommendation

The District Student Financial Aid Office should develop and implement procedures to review the academic program of all financial aid recipients to ensure that funds are only paid to those students enrolled in an eligible program.

District Response

Effective Spring 2012, at the completion of thirty (30) units of approved coursework for which financial aid funds were received, the District will require all students to develop a *Financial Aid Educational Plan* (FAEP) through the college's Counseling Department. The FAEP will identify the student's declared educational goal/academic program and all students will be required to submit a copy of the FAEP to the Financial Aid Office prior to disbursement of any further financial aid funds.

2011-5 RETURN TO TITLE IV

Federal Program Affected

U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Supplemental Education Opportunity Grant (FSEOG) (CFDA #84.007), Federal Pell Grant Program (CFDA #84.063), Federal Direct Student Loans (CFDA #84.268), Federal Family Educational Loans (CFDA #84.032), and Academic Competitiveness Grant (CFDA #84.375)

Compliance Requirement

Special Tests and Provisions - Return to Title IV

Criteria or Specific Requirement

34 CFR 668.22(j): The institution is required to "return the amount of Title IV funds for which it is responsible under paragraph (g) as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew. Additionally, an institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the payment period or period of enrollment, as appropriate.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Condition

During our testing of the requirements for Return to Title IV, it was noted that in some instances the College did not return the Federal funds within the 45 day requirement. Additionally, it was noted that the College did not determine the withdrawal date within the 30 day timeframe.

Questioned Costs

No questioned costs. The District did return the funds; however, they were not returned within the required timeframes.

Context

Of the students selected for testing that were required to return funds to the Department of Education, we noted eight students that did not meet the 45 day requirement. Additionally, we noted 2 instances where the withdrawal date was not determined within the required 30 day time frame.

Effect

The District is not in compliance with the Federal Return to Title IV requirements.

Cause

The District Student Financial Aid and Business Offices have not implemented a joint procedure to monitor the Return of Title IV funds to ensure that calculations and returns are performed within the required time frames.

Recommendation

The Student Financial Aid policies related to the Return of Title IV funds should be reviewed to ensure the timely return of the institutional share of Return to Title IV calculations within the 45 day required timeframe. Further, routine timelines for running reports to identify students who withdrew should be included in the procedures. Communication with the Business Office of amounts to be returned should be improved to ensure timely transmittal.

District Response

The District will coordinate the internal reporting to ensure timely identification of students subject to Return to Title IV and notification to the appropriate departments.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

2011-6 OPEN ENROLLMENT

Criteria or Specific Requirement

Education Code Section 76002(a): For the purposes of receiving State apportionments, a community college district may include high school pupils who attend a community college within the district pursuant to Sections 48800 and 76001 in the district's report of full-time equivalent students (FTES) only if those pupils are enrolled in community college classes that are open to the general public. If the class is offered at a high school campus, the class shall not be held during the time the campus is closed to the general public.

Condition

During our testing of open enrollment requirements it was noted that one course tested was held at a high school during hours that the school was closed to the general public. Additionally, through inquiry it was noted that this course was designed for students of that high school and was not open to all admitted students of the college.

Questioned Costs

The District claimed 5.6 FTES (actual hours/credit) for the course in question.

Effect

The District is claiming FTES for an ineligible course.

Recommendation

The District should implement procedures to ensure that all courses claimed for apportionment are open to all admitted students of the college. The Annual 320 Report of Attendance should be amended to properly report the FTES.

District Response

The District will notify the Chancellor's Office of the error and request the District's apportionment be reduced by the FTES claimed for the ineligible course. The District has developed procedures which will be monitored through the College's Enrollment Management Committee to govern the placement of classes in the schedules for all future academic periods to ensure all classes are open to all eligible students for enrollment.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

2011-7 TO BE ARRANGED HOURS

Criteria or Specific Requirement

California Community Colleges Chancellor's Office Legal Advisory 08-02:

Specific instructional activities, including those conducted during TBA hours, expected of all students enrolled in the course are included in the official course outline.

A clear description of the course, including the number of TBA hours required, must be published in the official general catalog or addenda thereto and in the official schedule of classes or addenda thereto.

Condition

During our testing of courses with TBA hours, we noted multiple instances where a description of the TBA hours was not included in the course catalog and/or the official course outline of record. Of the 24 courses tested, none of them separately identified the TBA hours in the course catalog; 23 of these courses did not separately identify the TBA hours in the course outline.

Questioned Costs

None.

Effect

The District is not in compliance with the TBA hours requirements and is at risk of losing funding for these courses.

Recommendation

The District should revise the official course outlines for courses with TBA hours to include a description of the specific instructional activities conducted during TBA hours. Additionally, the District should revise the description of these courses in the official general catalog or addenda to including the number of TBA hours required.

District Response

As appropriate and required, the District will revise the Course Outlines of Record (COR) for all TBA courses such that the TBA instructional activities required in these courses are clearly defined for students. Upon the completion of the revision of the COR's, this information will be included in the College's print and Online 2012-2013 general catalog.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs.

Financial Statement Findings

2010-1 CAPITAL ASSETS

Criteria

Industry standards and best business practices requires a system of internal controls that will provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

Condition

Significant Deficiency - Capital asset reporting problems included the following issues for the 2010 year-end reporting:

- There is not adequate supervisory review of asset reports to prevent and detect errors prior to the information being provided to us for the audit.
- When construction in progress is completed, the original asset and asset number is retired and a new asset is created in the building or site improvements asset class. This impairs the audit trail and the support for the construction in progress. The asset number should only transfer between the asset classes.
- The Escape system does not produce a capital asset summary so the information must be compiled manually and is prone to error.
- There are not policies and procedures for performing physical inventories.

Questioned Costs

None.

Recommendation

Management should establish oversight roles and monthly reconciliation procedures. On a periodic basis, perhaps monthly, the reports should be prepared and reviewed for accuracy and that should significantly improve the annual summary. The summary should be prepared on a monthly basis until it can be performed with greater accuracy. Reports of additions together with supporting reconciliation to the general ledger should be reviewed. System upgrades may provide better reports to support the summary or even create the summary.

Current Status

Implemented.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Federal Awards Findings

2010-2 WORKFORCE INVESTMENT ACT - REPORTING

Program CFDA No.17.258

CFDA Program Title

Workforce Economic Stimulus Program Funds for Phase II, Allied Health Program Expansion.

Criteria or Specific Requirement

The grant agreement provided by the State Chancellor's Office requires the District to submit Monthly Expenditure Reports, as well as Quarterly Performance Reports.

Condition

Significant Deficiency - For the above referenced Federal program, the District did not submit the Monthly Expenditure Reports or the Quarterly Performance Reports to the Chancellor's Office in accordance with the reporting requirements.

Questioned Costs

None.

Effect

Required Expenditure and Activity Reports were not submitted in accordance with the grant agreements.

Cause

Grant agreements were not clearly understood as to the required reporting requirements.

Recommendation

Grant agreements should be reviewed and the requirements for reporting clearly understood. The program manager should develop a reporting calendar to monitor the submission of the required reports.

Current Status

Implemented.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

State Awards Findings

2010-3 STUDENTS ACTIVELY ENROLLED

Criteria

California Code of Regulations, Title 5 requires that only the attendance of students actively enrolled in a course section as of the census date may be claimed for apportionment purposes.

Condition

Control Deficiency - We selected a sample of 40 course sections for the Spring 2010 term that were listed on the Pre-Census Acknowledgment Report. We found that:

- One student was marked as dropped on the manual teacher roster and was not removed from the attendance system.
- Several manual teacher rosters/scantrons had no indication of when they were turned into admissions and records.
- Several teachers did not submit their manual teacher rosters until 20 days or more after the census date.

The District implemented an on-line reporting mechanism for instructors to submit their rosters and report the actively enrolled students. This reporting system was not utilized by all faculty which appears to be the primary reason for the exceptions noted.

Questioned Costs

None. The District is currently reporting FTES in excess of funding.

Recommendation

The on-line reporting for students actively enrolled should be utilized by all instructors to properly support the recorded FTES.

Current Status

Implemented.