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PASADENA AREA
COMMUNITY COLLEGE
DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012 AND 2011

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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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, 2012 and 2011, 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, 2012 and 2011, 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 14 to the financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding formula of Pasadena Area Community College District.

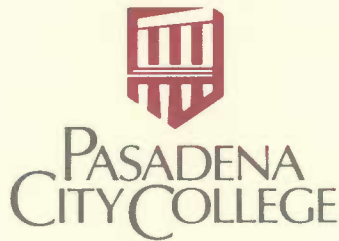
In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 supplementary information, such as the Management's Discussion and Analysis on pages 4 through 10 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 46 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 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 (Circular A-133)*, and other supplementary information listed in the Table of Contents, are presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Vaurick Fine, Day & Co. LLP

Rancho Cucamonga, California
December 6, 2012



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, 2012. This analysis is presented with comparative information from our June 30, 2011 and June 30, 2010, 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, 2012 AND 2011

FINANCIAL HIGHLIGHTS

- The District ended the year with an unrestricted General Fund balance of \$20,708,293. The State Chancellor's Office recommends reserve levels of five percent of total General Fund expenditures, \$5,513,694, 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 inter-fund borrowing as necessary to ensure the orderly conducting of District business.
- The primary expenditure of the Unrestricted General Fund of the District is for the salaries and benefits of the Academic, Classified, and Administrative salaries of District employees. Approximately 90 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 Citizens' 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 \$36.7 million. This represents an decrease of \$5.7 million from the 2010-2011 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 total reported FTES including non-credit FTES for the years ended 2012 and 2011, were 21,425 and 23,224, respectively.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)
JUNE 30, 2012 AND 2011**

Condensed financial information is as follows:

**Statement of Net Assets
as of June 30,**

(Amounts in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Current Assets			
Cash, investments, and receivables	\$ 144,481	\$ 167,870	\$ 166,469
Inventory and other assets	1,791	1,863	1,762
Total Current Assets	<u>146,272</u>	<u>169,733</u>	<u>168,231</u>
Noncurrent Assets			
Capital assets, net of depreciation	193,402	181,759	184,803
Total Assets	<u>\$ 339,674</u>	<u>\$ 351,492</u>	<u>\$ 353,034</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 13,453	\$ 14,167	\$ 11,748
Other current liabilities	497	477	468
Deferred revenue	4,713	4,306	5,208
Long-term obligations - current portion	10,562	11,588	10,640
Total Current Liabilities	<u>29,225</u>	<u>30,538</u>	<u>28,064</u>
Noncurrent Liabilities			
Claims liability	3,856	3,856	1,250
Long-term obligations - noncurrent portion	124,524	132,065	135,229
Total Liabilities	<u>157,605</u>	<u>166,459</u>	<u>164,543</u>
NET ASSETS			
Invested in capital assets	121,789	113,555	112,851
Restricted for expendable purposes	29,145	38,825	35,018
Unrestricted	31,135	32,653	40,622
Total Net Assets	<u>182,069</u>	<u>185,033</u>	<u>188,491</u>
Total Liabilities and Net Assets	<u>\$ 339,674</u>	<u>\$ 351,492</u>	<u>\$ 353,034</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, 2012 AND 2011**

Long-term obligations consist primarily of the general obligation bond issue, Public Agency Retirement Services (PARS) Supplementary Retirement Plan, Postemployment Benefits Obligation (OPEB), and compensated absences. Long-term obligations decreased by approximately \$8.6 million as the District continued repayment of debt principal.

**Statement of Operating Results
for the Year Ended June 30,**

(Amounts in thousands)

	2012	2011	2010
OPERATING REVENUES			
Tuition and fees, (net)	\$ 20,188	\$ 18,971	\$ 19,867
Auxiliary sales and charges	1,829	6,191	6,443
Other operating revenues	158	170	212
Total Operating Revenues	<u>22,175</u>	<u>25,332</u>	<u>26,522</u>
OPERATING EXPENSES			
Salaries and benefits	108,872	121,525	112,036
Supplies and maintenance	23,825	25,717	24,318
Student financial aid	32,808	35,971	27,147
Depreciation	9,127	8,615	7,095
Total Operating Expenses	<u>174,632</u>	<u>191,828</u>	<u>170,596</u>
NET LOSS ON OPERATIONS	<u>(152,457)</u>	<u>(166,496)</u>	<u>(144,074)</u>
NONOPERATING REVENUES AND (EXPENSES)			
State apportionments	67,301	80,523	78,562
Property taxes	33,131	31,198	35,858
Grants and contracts	46,943	49,581	39,145
State revenue	3,730	3,639	3,451
Investment income	1,730	1,800	1,776
Interest expense	(6,022)	(6,548)	(6,195)
Other nonoperating revenues and transfers	1,309	1,048	(42)
Total Nonoperating Revenues and (Expenses)	<u>148,122</u>	<u>161,241</u>	<u>152,555</u>
OTHER REVENUES			
State revenues, capital	-	-	54
Local revenues, capital	1,371	1,797	2,290
Total Other Revenues	<u>1,371</u>	<u>1,797</u>	<u>2,344</u>
NET CHANGE IN NET ASSETS	<u>\$ (2,964)</u>	<u>\$ (3,458)</u>	<u>\$ 10,825</u>

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, 2012 AND 2011

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 \$152.5 million is balanced by the other funding sources. Total District revenues were less than expenditures by \$3.0 million for the year ended June 30, 2012.

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 9 of the financial statements.

Statement of Cash Flows for the Year Ended June 30,

(Amounts in thousands)

	2012	2011	2010
CASH FLOWS FROM			
Operating activities	\$ (143,656)	\$ (148,114)	\$ (139,946)
Noncapital financing activities	134,311	150,418	138,507
Capital financing activities	(20,736)	(6,200)	46,257
Investing activities	1,919	1,735	1,971
Net Change in Cash and Cash Equivalents	<u>\$ (28,162)</u>	<u>\$ (2,161)</u>	<u>\$ 46,789</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, 2012 AND 2011**

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, 2012

	Salaries and Benefits	Supplies, Material, and Other Expenses	Student Financial Aid	Other Outgo	Total
Instruction	\$ 53,061,109	\$ 1,955,169	\$ -	\$ -	\$ 55,016,278
Non-instruction	4,797,234	170,015	-	-	4,967,249
Academic support	10,542,522	851,102	-	-	11,393,624
Student services	12,947,623	1,041,020	-	-	13,988,643
Operation and maintenance of plant	7,178,504	1,823,340	-	-	9,001,844
Institutional support	14,722,987	4,249,074	-	-	18,972,061
Community services and economic development	709,951	425,806	-	-	1,135,757
Ancillary services and auxiliary	4,911,913	9,703,281	-	-	14,615,194
Student financial aid	-	-	32,808,473	-	32,808,473
Non-capitalized property items	-	3,606,291	-	-	3,606,291
Depreciation	-	-	-	9,126,997	9,126,997
Total	\$ 108,871,843	\$ 23,825,098	\$ 32,808,473	\$ 9,126,997	\$ 174,632,411

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	6,480,032	-	-	11,172,607
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	\$ 121,525,275	\$ 21,415,469	\$ 35,971,406	\$ 8,615,122	\$ 187,527,272

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION) JUNE 30, 2012 AND 2011

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 80 percent of the unrestricted General Fund. The 2012-2013 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. Therefore, it is prudent for the District to continue its practice of maintaining adequate reserves to weather unforeseen economic challenges.

The District will complete construction of the new Center for the Arts, which is rising in place of the K and T buildings. The elevator upgrade project 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.

The District's budget condition continues to be stable. Proposition 30 will have a positive impact on the California Community College System and the Pasadena Area Community College District but presents some unknowns as regards to the overall impact on the District's 2012-2013 and 2013-2014 fiscal year budgets and cash flows.

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, California, 91106-2003 or call (626) 585-7170.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF NET ASSETS - PRIMARY GOVERNMENT
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and Investments		
Cash and cash equivalents	\$ 1,157,692	\$ 1,232,944
Investments - unrestricted	7,503,006	6,648,183
Investments - restricted	105,435,064	134,376,176
Subtotal Cash and Investments	<u>114,095,762</u>	<u>142,257,303</u>
Accounts receivable	29,779,251	24,965,187
Student loans receivable	605,812	647,454
Prepaid expenses	838,911	873,204
Inventories	951,505	990,087
Total Current Assets	<u>146,271,241</u>	<u>169,733,235</u>
NONCURRENT ASSETS		
Nondepreciable capital assets	28,978,170	18,825,402
Depreciable capital assets, net of accumulated depreciation	164,424,090	162,934,032
Total Noncurrent Assets	<u>193,402,260</u>	<u>181,759,434</u>
TOTAL ASSETS	<u>339,673,501</u>	<u>351,492,669</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	11,216,172	11,909,169
Accrued interest payable	2,236,959	2,258,272
Other current liabilities	497,109	477,266
Deferred revenue	4,713,044	4,306,325
Bonds and notes payable	9,300,000	10,224,747
Other long-term obligations	1,261,863	1,362,817
Total Current Liabilities	<u>29,225,147</u>	<u>30,538,596</u>
NONCURRENT LIABILITIES		
Claims liability	3,856,000	3,856,000
Bonds and notes payable	115,077,975	122,616,052
Other long-term obligations	9,445,816	9,448,996
Total Noncurrent Liabilities	<u>128,379,791</u>	<u>135,921,048</u>
TOTAL LIABILITIES	<u>157,604,938</u>	<u>166,459,644</u>
NET ASSETS		
Invested in capital assets, net of related debt	121,788,791	113,555,461
Restricted for:		
Debt service	9,686,260	10,916,832
Capital projects	19,458,442	27,908,075
Unrestricted	31,135,070	32,652,657
TOTAL NET ASSETS	<u>\$ 182,068,563</u>	<u>\$ 185,033,025</u>

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Student Tuition and Fees	\$ 25,362,093	\$ 26,842,851
Less: Scholarship discount and allowance	(5,174,438)	(7,871,913)
Net tuition and fees	<u>20,187,655</u>	<u>18,970,938</u>
Auxiliary Enterprise Sales and Charges		
Bookstore	1,415,406	1,446,827
Other enterprise	413,193	442,903
Other operating revenues	158,245	170,154
TOTAL OPERATING REVENUES	<u>22,174,499</u>	<u>21,030,822</u>
OPERATING EXPENSES		
Salaries	84,847,499	89,036,882
Employee benefits	24,024,344	32,488,393
Supplies, materials, and other operating expenses and services	20,325,527	19,093,594
Student financial aid	32,808,473	35,971,406
Equipment, maintenance, and repairs	3,499,571	2,321,875
Depreciation	9,126,997	8,615,122
TOTAL OPERATING EXPENSES	<u>174,632,411</u>	<u>187,527,272</u>
OPERATING LOSS	<u>(152,457,912)</u>	<u>(166,496,450)</u>
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	67,301,469	80,522,558
Local property taxes levied for general purposes	21,099,859	18,856,207
Local property taxes levied for debt repayment	12,031,048	12,341,718
Grants and Contracts, noncapital:		
Federal	36,156,771	38,604,171
State	10,786,121	10,976,468
State lottery	3,730,188	3,638,641
Investment income	1,729,725	1,799,781
Interest expense on capital related debt	(6,022,355)	(6,547,529)
Transfer to fiduciary funds	(232,497)	(273,567)
Other nonoperating revenue	1,541,868	1,322,854
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>148,122,197</u>	<u>161,241,302</u>
LOSS BEFORE OTHER REVENUES	<u>(4,335,715)</u>	<u>(5,255,148)</u>
OTHER REVENUES		
Local revenues, capital	1,371,253	1,797,129
TOTAL OTHER REVENUES	<u>1,371,253</u>	<u>1,797,129</u>
CHANGE IN NET ASSETS	(2,964,462)	(3,458,019)
NET ASSETS, BEGINNING OF YEAR	185,033,025	188,491,044
NET ASSETS, END OF YEAR	<u>\$ 182,068,563</u>	<u>\$ 185,033,025</u>

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, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 20,600,068	\$ 18,184,264
Payments to or on behalf of employees	(111,204,796)	(113,034,762)
Payments to vendors for supplies and services	(22,229,573)	(25,173,690)
Payments to students for scholarships and grants	(32,808,473)	(34,450,645)
Auxiliary sales and charges	1,986,844	6,360,874
Net Cash Flows From Operating Activities	(143,655,930)	(148,113,959)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	62,061,774	77,542,077
Property taxes - nondebt related	21,192,011	18,856,207
Grants and contracts	50,729,613	52,225,491
State taxes and other revenues	(179,266)	(109,569)
Other receipts	507,086	1,904,131
Net Cash Flows From Noncapital Financing Activities	134,311,218	150,418,337
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State revenues, capital projects	15,109	39,293
Local revenue, capital projects	1,371,253	1,797,129
Property taxes - related to capital debt	11,938,896	12,341,718
Acquisition and construction of capital assets	(19,245,336)	(5,050,032)
Principal paid on capital debt and leases	(10,301,664)	(10,639,673)
Interest paid on capital debt and leases	(4,514,242)	(4,688,559)
Net Cash Flows From Capital and Related Financing Activities	(20,735,984)	(6,200,124)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,919,155	1,734,910
Net Cash Flows From Investing Activities	1,919,155	1,734,910
NET CHANGE IN CASH AND CASH EQUIVALENTS	(28,161,541)	(2,160,836)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	142,257,303	144,418,139
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 114,095,762	\$ 142,257,303

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (152,457,912)	\$ (166,496,450)
Adjustments to Reconcile Operating Loss to Net Cash		
Flows From Operating Activities:		
Depreciation	9,126,997	8,615,122
Changes in Operating Assets and Liabilities:		
Receivables, net	41,642	919
Inventories	38,582	(38,607)
Prepaid expenses	34,293	(62,974)
Accounts payable and accrued liabilities	(885,885)	4,549,306
Deferred revenue	473,570	(928,039)
Compensated absences and load banking	107,869	(754,476)
PARS supplementary retirement plan	1,126,777	6,309,315
Other postemployment benefits (OPEB)	(1,261,863)	691,925
Total Adjustments	<u>8,801,982</u>	<u>18,382,491</u>
Net Cash Flows From Operating Activities	<u>\$ (143,655,930)</u>	<u>\$ (148,113,959)</u>
 Cash and Cash Equivalents Consist of the Following:		
Cash in banks	\$ 1,157,692	\$ 1,232,944
Cash in county treasury	112,938,070	141,024,359
Total Cash and Cash Equivalents	<u>\$ 114,095,762</u>	<u>\$ 142,257,303</u>
 Noncash Transactions		
On behalf payments for benefits	<u>\$ 2,468,749</u>	<u>\$ 2,183,226</u>

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF FIDUCIARY NET ASSETS
JUNE 30, 2012 AND 2011**

	2012		2011	
	Trust	Agency Funds	Trust	Agency Funds
ASSETS				
Cash and cash equivalents	\$ 1,051,537	\$ 421,042	\$ 777,881	\$ 449,158
Investments	1,189,792	120,466	1,227,925	120,139
Fixed assets	-	6,221	-	-
Total Assets	2,241,329	\$ 547,729	2,005,806	\$ 569,297
LIABILITIES				
Due to student groups	-	\$ 547,729	-	\$ 569,297
NET ASSETS				
Unreserved	2,241,329		2,005,806	
Total Net Assets	\$ 2,241,329		\$ 2,005,806	

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
	<u>Trust</u>	<u>Trust</u>
ADDITIONS		
Local revenues	\$ 2,714,982	\$ 2,333,017
DEDUCTIONS		
Classified salaries	224,642	242,706
Employee benefits	50,793	31,464
Books and supplies	808,523	681,540
Services and operating expenditures	1,466,495	1,234,873
Capital outlay	120,004	35,703
Total Deductions	<u>2,670,457</u>	<u>2,226,286</u>
OTHER FINANCING SOURCES		
Operating transfers from primary government	190,998	218,330
Change in Net Assets	235,523	325,061
Net Assets - Beginning	<u>2,005,806</u>	<u>1,680,745</u>
Net Assets - Ending	<u>\$ 2,241,329</u>	<u>\$ 2,005,806</u>

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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 is a comprehensive, public, two-year institution offering 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 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, 2012 AND 2011

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 and No. 38. 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. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. 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 District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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:
 - o Statement of Net Assets - Primary Government
 - o Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government
 - o Statement of Cash Flows - Primary Government
 - o Financial Statements for the Fiduciary Funds including:
 - o Statement of Fiduciary Net Assets
 - o 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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2012 and 2011, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

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.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2012.

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, and an estimated useful life greater than one year, 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.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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.

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. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component invested in capital assets – net of related debt.

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.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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 \$29,144,702 and \$38,824,907 of restricted net assets for 2012 and 2011, 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.

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 used to repay the General Obligation Bonds.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers 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 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*. During the years ended June 30, 2012 and 2011, the District distributed \$2,263,828 and \$2,223,242, in direct lending through the U.S. Department of Education.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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 System (CalSTRS) on behalf of all community colleges in California. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense. The California Department of Education has issued a fiscal advisory instructing districts not to record the revenue and expenditures for the on behalf payments within the funds and accounts of a district. The amount of the on behalf payments made for the District for the year ended June 30, 2012, was \$2,468,749. These amounts are reflected in the District's audited financial statements.

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.

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

From time to time the Governmental Accounting Standards Board will issue additional guidance on the accounting and reporting for financial transactions affecting governmental entities. The following is a summary of the most recent pronouncements which will impact future reporting or accounting requirements for the District. The full text of the following statements, along with implementation guides may be found on the GASB website: www.gasb.org.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*.

This Statement modifies and amends certain requirements for inclusion and reporting of component units in the financial reporting entity. Guidance is provided for both blended and discretely presented component units. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District or related component units for the June 30, 2013 financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

In December, 2010 GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

This objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included within other pronouncements issued on or before November 30, 1989 which does not conflict or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Early application is encouraged. The provisions of this Statement are required to be applied retroactively for all periods presented. Management is in the process of determining the impact to the District reporting for the June 30, 2013 financial statements for the costs associated with Measure P Bond monies and the associated imprest and construction costs.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2013 financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2014 financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*.

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54 and GASB 62. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2014 financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of Statement No. 27*.

The primary objective of these Statements is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged. Management is in the process of determining the impact of both GASB Statement 67 and 68 on the June 30, 2015 financial statements.

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.

NOTE 2 - 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 (ECS) 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, 2012 AND 2011

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, 2012, consist of the following:

Primary government	\$ 114,095,762
Fiduciary funds	2,782,837
Total Deposits and Investments	<u>\$ 116,878,599</u>
Cash on hand and in banks	\$ 2,492,614
Cash in revolving	107,500
Investments	114,278,485
Total Deposits and Investments	<u>\$ 116,878,599</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days To Maturity</u>
Los Angeles County Investment Pool	\$ 112,457,658	617
Certificates of Deposit	1,200,101	1,058
Stocks	144,476	N/A
Mutual Funds	201,250	N/A
Municipal Bonds	275,000	N/A
Total	<u>\$ 114,278,485</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, 2012, the District's bank balance of \$3,354,536 was fully insured.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 - 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	
	2012	2011
Federal Government		
Categorical aid	\$ 1,415,741	\$ 2,873,223
State Government		
Apportionment deferral	24,493,602	19,253,907
Categorical aid	102,022	117,131
Lottery	1,843,635	1,664,369
Local Sources		
Interest	208,638	398,068
Other local sources	1,715,613	658,489
Total	<u>\$ 29,779,251</u>	<u>\$ 24,965,187</u>
Student loan receivables	<u>\$ 605,812</u>	<u>\$ 647,454</u>

NOTE 4 - PREPAID EXPENSES

Prepaid expenses consisted of the following:

	Primary Government	
	2012	2011
Prepaid dental insurance premiums	\$ 290,716	\$ 206,584
Prepaid CalPERS premiums	501,066	518,811
Other	47,129	147,809
Total	<u>\$ 838,911</u>	<u>\$ 873,204</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 5 - 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. Balances only between the primary government and the fiduciary funds remain.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2012, 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	8,428,994	18,677,448	8,524,680	18,581,762
Total Capital Assets Not Being Depreciated	<u>18,825,402</u>	<u>18,677,448</u>	<u>8,524,680</u>	<u>28,978,170</u>
Capital Assets Being Depreciated				
Buildings and improvements	211,679,910	8,524,682	-	220,204,592
Site improvements	19,440,367	-	-	19,440,367
Equipment	16,675,757	2,114,715	425,307	18,365,165
Total Capital Assets Being Depreciated	<u>247,796,034</u>	<u>10,639,397</u>	<u>425,307</u>	<u>258,010,124</u>
Total Capital Assets	<u>266,621,436</u>	<u>29,316,845</u>	<u>8,949,987</u>	<u>286,988,294</u>
Less Accumulated Depreciation				
Buildings and improvements	65,810,629	6,894,345	-	72,704,974
Site improvements	7,849,884	1,172,857	-	9,022,741
Equipment	11,201,489	1,059,795	402,965	11,858,319
Total Accumulated Depreciation	<u>84,862,002</u>	<u>9,126,997</u>	<u>402,965</u>	<u>93,586,034</u>
Net Capital Assets	<u>\$ 181,759,434</u>	<u>\$20,189,848</u>	<u>\$ 8,547,022</u>	<u>\$ 193,402,260</u>

Depreciation expense for the year was \$9,126,997.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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	<u>29,678,225</u>	<u>4,583,669</u>	<u>15,436,492</u>	<u>18,825,402</u>
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	<u>233,085,282</u>	<u>16,432,025</u>	<u>1,721,273</u>	<u>247,796,034</u>
Total Capital Assets	<u>262,763,507</u>	<u>21,015,694</u>	<u>17,157,765</u>	<u>266,621,436</u>
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	<u>77,959,925</u>	<u>8,615,122</u>	<u>1,713,045</u>	<u>84,862,002</u>
Net Capital Assets	<u>\$ 184,803,582</u>	<u>\$ 12,400,572</u>	<u>\$ 15,444,720</u>	<u>\$ 181,759,434</u>

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

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	Primary Government	
	2012	2011
Accrued payroll and benefits	\$ 5,365,914	\$ 7,671,650
Construction	2,635,752	1,108,766
Student financial aid payments	186,663	1,520,761
Vendor payments	3,027,843	1,607,992
Total	<u>\$ 11,216,172</u>	<u>\$ 11,909,169</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 - DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

	Primary Government	
	2012	2011
Federal categorical aid	\$ 36,644	\$ 42,379
State categorical aid	1,984,312	1,785,056
Other State revenue	35,085	295,457
Student fees	1,730,011	1,359,240
Radio agreement	636,410	703,829
Other local	290,582	120,364
Total	<u>\$ 4,713,044</u>	<u>\$ 4,306,325</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2012 fiscal year consisted of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
Bonds and Notes Payable					
General obligation bonds	\$ 122,302,849	\$ 1,761,923	\$ 8,480,000	\$ 115,584,772	\$ 8,700,000
Premium on bonds	8,737,950	-	1,169,747	7,568,203	-
2003 Certificates of Participation, Series A	1,800,000	-	575,000	1,225,000	600,000
Total Bonds and Notes Payable	<u>132,840,799</u>	<u>1,761,923</u>	<u>10,224,747</u>	<u>124,377,975</u>	<u>9,300,000</u>
Other Obligations					
Compensated absences	1,708,298	25,706	-	1,734,004	-
Claims Liability	3,856,000	-	-	3,856,000	-
Load banking	375,054	82,163	-	457,217	-
Capital leases	216,845	-	76,917	139,928	-
Other postemployment benefits (net)	2,202,301	2,152,275	1,025,498	3,329,078	-
PARS supplementary retirement plan	6,309,315	-	1,261,863	5,047,452	1,261,863
Total Other Obligations	<u>14,667,813</u>	<u>2,260,144</u>	<u>2,364,278</u>	<u>14,563,679</u>	<u>1,261,863</u>
Total Long-Term Obligations	<u>\$ 147,508,612</u>	<u>\$ 4,022,067</u>	<u>\$ 12,589,025</u>	<u>\$ 138,941,654</u>	<u>\$ 10,561,863</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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
Notes 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>

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 2.0 percent to 6.6 percent. The bonds have been issued to finance the voter approved facilities acquisition and construction. At June 30, 2012, \$150,000,000 had been issued and \$100,450,000 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 \$22,657,774. The bonds remain outstanding, and at June 30, 2012, the outstanding balance is \$15,134,772.

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, 2012, the balance outstanding was \$1,225,000. The certificates mature through 2014 with interest rates ranging from 2.000 percent to 4.625 percent.

The District has utilized capital leases purchase agreements to purchase equipment. The current lease purchase agreements will be paid through 2017.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

General Obligation Bonds, 2002 Series:

<u>Bonds</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Bonds Outstanding July 1, 2011</u>	<u>Accretion Additions/ Issuances</u>	<u>Redeemed</u>	<u>Bonds Outstanding June 30, 2012</u>
A	6/1/2003	2.0 - 5.0%	\$ 33,000,000	\$ 1,925,000	\$ -	\$ 945,000	\$ 980,000
B	7/12/2006	4.5 - 5.3%	65,000,000	48,955,000	-	1,395,000	47,560,000
C	7/12/2006	3.9 - 4.4%	22,657,774	19,422,849	1,761,923	6,050,000	15,134,772
D	10/15/2009	3.0 - 5.0 %	26,705,000	26,705,000	-	90,000	26,615,000
E	10/15/2009	6.5 - 6.6%	25,295,000	25,295,000	-	-	25,295,000
Unamortized premiums:							
	B			1,651,062	-	78,622	1,572,440
	C			3,791,368	-	947,842	2,843,526
	D and E			3,295,520	-	143,283	3,152,237
				<u>\$ 131,040,799</u>	<u>\$ 1,761,923</u>	<u>\$ 9,649,747</u>	<u>\$ 123,152,975</u>

General Obligation Bond 2002 Series A

The general obligation bonds mature through 2013 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>2013</u>	<u>\$ 980,000</u>	<u>\$ 39,200</u>	<u>\$ 1,019,200</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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>
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	1,740,000	2,023,113	3,763,113
2018-2022	10,080,000	8,698,375	18,778,375
2023-2027	12,975,000	5,719,444	18,694,444
2028-2032	16,510,000	2,114,163	18,624,163
Total	<u>\$ 47,560,000</u>	<u>\$ 27,382,959</u>	<u>\$ 74,942,959</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>
2013	\$ 5,845,366	\$ 304,634	\$ 6,150,000
2014	4,984,382	820,618	5,805,000
2015	4,305,024	1,244,976	5,550,000
Total	<u>\$ 15,134,772</u>	<u>\$ 2,370,228</u>	<u>\$ 17,505,000</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>
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	1,605,000	1,082,600	2,687,600
2018-2022	9,230,000	4,143,750	13,373,750
2023-2027	11,780,000	1,530,000	13,310,000
Total	<u>\$ 26,615,000</u>	<u>\$ 11,620,300</u>	<u>\$ 38,235,300</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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>
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	-	1,668,642	1,668,642
2018-2022	-	8,343,209	8,343,209
2023-2027	-	8,343,209	8,343,209
2028-2032	14,805,000	6,005,287	20,810,287
2033-2035	10,490,000	1,066,636	11,556,636
Total	<u>\$ 25,295,000</u>	<u>\$ 32,101,551</u>	<u>\$ 57,396,551</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>
2013	\$ 600,000	\$ 40,125	\$ 640,125
2014	625,000	14,063	639,063
Total	<u>\$ 1,225,000</u>	<u>\$ 54,188</u>	<u>\$ 1,279,188</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, 2012 and 2011, is \$1,734,004 and \$1,708,298, 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, 2012 and 2011, is \$457,217 and \$375,054, respectively.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Capital Leases

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

Balance, July 1, 2011	\$ 245,501
Payments	89,018
Balance, June 30, 2012	<u>\$ 156,483</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2013	\$ 100,820
2014	47,289
2015	2,871
2016	2,871
2017	2,632
Total	<u>156,483</u>
Less: Amount Representing Interest	(16,555)
Present Value of Minimum Lease Payments	<u>\$ 139,928</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was \$2,073,548, and contributions made by the District during the year were \$1,025,498. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$110,115 and \$(31,388), respectively, which resulted in an increase to the net OPEB obligation of \$1,126,777. As of June 30, 2012, the net OPEB obligation was \$3,329,078. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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>
2013	\$ 1,261,863
2014	1,261,863
2015	1,261,863
2016	1,261,863
Total	<u><u>\$ 5,047,452</u></u>

NOTE 10 - 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 70 retirees receiving benefits and 634 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 2011-2012, the District contributed \$1,025,498 to the Plan, all of which was used for current premiums.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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	\$ 2,073,548
Interest on net OPEB obligation	110,115
Adjustment to annual required contribution	<u>(31,388)</u>
Annual OPEB cost (expense)	2,152,275
Contributions made	<u>(1,025,498)</u>
Increase in net OPEB obligation	1,126,777
Net OPEB obligation, beginning of year	<u>2,202,301</u>
Net OPEB obligation, end of year	<u><u>\$ 3,329,078</u></u>

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
2010	\$ 1,728,655	\$ 937,375	54%	\$ 1,510,376
2011	1,648,124	956,199	58%	2,202,301
2012	2,152,275	1,025,498	48%	3,329,078

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2012, valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 15,674,507
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 15,674,507</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	<u>\$ 51,822,405</u>
UAAL as Percentage of Covered Payroll	<u><u>30%</u></u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

The above noted actuarial accrued liability was based on the January 24, 2012, 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 \$15,223,616 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.

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 January 24, 2012, 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, 2012, was 26 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 11 - 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, 2012, 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, 2012 AND 2011**

Workers' Compensation

For fiscal year 2012, 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, 2011 to June 30, 2012:

	<u>Workers' Compensation</u>	<u>Property and Liability</u>
Liability Balance, July 1, 2011	\$ 3,631,000	\$ 225,000
Claims and changes in estimates	1,000,510	930,005
Claims payments	(1,000,510)	(930,005)
Liability Balance, June 30, 2012	<u>\$ 3,631,000</u>	<u>\$ 225,000</u>
Assets Available to Pay Claims at June 30, 2012	<u>\$ 1,913,163</u>	<u>\$ 563,460</u>

At June 30, 2012, the Workers' Compensation fund had a deficit ending balance of \$(1,718,379). 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, 2012 AND 2011

NOTE 12 - 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 2011-2012 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, 2012, 2011, and 2010, were \$3,890,391, \$4,223,334, and \$4,276,079, 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, 2012 AND 2011

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 2011-2012 was 10.923 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2012, 2011, and 2010, were \$2,223,229, \$2,421,742, and \$2,232,050, respectively, and equaled 100 percent of the required contributions for each year.

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.

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 System (CalSTRS) and the California Public Employees' Retirement Systems (CalPERS) on behalf of all community colleges in California.

NOTE 13 - 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, 2012, the District made payments of \$652,310, \$129,056, and \$47,850 to SWACC, SAWCX II, and SELF, respectively.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Deferral of State Apportionments

Certain apportionments owed to the District for funding of FTES, which are attributable to the 2011-2012 fiscal year have been deferred to the 2012-2013 fiscal year. The total amount of funding deferred into the 2012-2013 fiscal year was \$24,493,602. As of October, 2012, 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, 2012.

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, 2012.

Rents

The District has entered into various rental lease agreements for facilities. The outstanding commitment is approximately \$47 million.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

<u>CAPITAL PROJECTS</u>	<u>Remaining Construction Commitments</u>	<u>Expected Year of Completions</u>
Arts building	\$ 19,872,448	2012
Construction management	600,000	Ongoing
Classroom conversion	173,041	Ongoing
Elevator upgrades	52,769	Ongoing
Restroom upgrades	21,018	Ongoing
Access compliance to building	17,437	Ongoing
Campus center	7,659	Ongoing
	<u>\$ 20,744,372</u>	

REQUIRED SUPPLEMENTARY INFORMATION

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012**

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%
January 24, 2012	-	15,674,507	15,674,507	0%	51,822,405	30%

SUPPLEMENTARY INFORMATION

PASADENA AREA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2012

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. Geoffrey L. Baum	President	November 2013
Mr. John Martin	Vice President	November 2015
Dr. Anthony Fellow	Clerk	November 2013
Ms. Belinda Brown	Member	November 2013
Dr. Jeanette Mann	Member	November 2015
Mr. William Thomson	Member	November 2015
Ms. Linda Wah	Member	November 2015
Ms. Hanna Israel	Student Trustee	June 30, 2013

ADMINISTRATION

Dr. Mark W. Rocha	President and District Superintendent
Dr. Robert H. Bell	Vice President, Instruction and Student Learning Services
Mr. Robert B. Miller	Vice President, Educational Services; Acting Vice President, Administrative Services
Mr. Dwayne Cable	Vice President, Information Technology
Ms. Bobbi Abram	Executive Director, Foundation
Ms. Gail Cooper	General Counsel

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

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		\$ 291,445
TRIO - Upward Bound	84.047A		339,163
TRIO - Upward Bound Math and Science	84.047M		242,997
TRIO - Talent Search	84.044A		134,341
Total TRIO Cluster			1,007,946
Passed through from California Community Colleges Chancellor's Office			
Career and Technical Education Act Title I-C	84.048	11-C01-040	622,801
Career and Technical Education Act Transitions	84.243	11-112-770	46,970
Passed through the California Department of Education			
Adult Education and Family Literacy Act - Adult Basic Education	84.002	14508	284,334
XL for Life: Transforming Developmental Education at PCC to Improve Hispanic Student Success	84.031S		763,712
Developing an Accessible Intersegment STEM Pathway in Environmental Sciences for Underserved Hispanic Students	84.031C		409,261
CCAMPIS - Child Care Program	84.355A		224,473
Student Financial Assistance Cluster (Direct Funded):			
Pell Grant	84.063		28,211,086
Pell Grant Administration Grant	84.063		47,610
Supplemental Educational Opportunity Grant	84.007		382,430
Supplemental Educational Opportunity Grant Administration	84.007		50,145
Federal Work-Study Program	84.033		538,320
Federal Direct Student Loans	84.268		2,263,828
Academic Competitiveness Grants	84.375		5,052
Nursing Loan Program	93.364		10,625
Total Student Financial Assistance Cluster			31,509,096
Total U.S. Department of Education			34,868,593
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the California Community Colleges Chancellor's Office			
Foster Care Education Program	93.658	[1]	67,318
Personal and Home Care Aide State Training Program (PHCAST)	93.512	F11-0085	134,192
Temporary Assistance for Needy Families (TANF) Cluster			
Passed through the California Community Colleges Chancellor's Office			
Temporary Assistance for Needy Families (TANF)	93.558	[1]	44,167
Passed through the County of Los Angeles Department of Social Services			
Temporary Assistance for Needy Families (TANF)	93.558	CCS09010	88,940
Total Temporary Assistance for Needy Families (TANF) Cluster			133,107

[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, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Child Care Development Fund Cluster			
Passed through the California Department of Education			
Child Care and Development Block Grant	93.575	000324	\$ 31,326
Child Care and Development Block Grant - Mandatory Match	93.596	000321	56,894
Total Child Care Development Fund Cluster			<u>88,220</u>
Passed through the Foundation for California Community Colleges			
Youth Empowerment Strategies for Success - Los Angeles (YESS-LA)	93.674	[1]	86,251
Passed through the Community College Foundation			
Model Approach to Partnership in Parenting (MAPP)	93.674	812-120	22,500
Total Department of Health and Human Services			<u>531,588</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665		5,650
Summer Food Service Program for Children	10.559		3,530
Passed through the California Department of Education			
Child and Adult Care Food Program	10.558A	3278-1A	44,460
Total U.S. Department of Agriculture			<u>53,640</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Education	64.000		8,481
NATIONAL SCIENCE FOUNDATION			
Providing More to Increase Stem Majors	47.076		6,805
SMALL BUSINESS ADMINISTRATION			
Small Business Development	59.037		91,907
U.S. DEPARTMENT OF COMMERCE			
Passed through the Foundation for California Community Colleges			
California Connects	11.557	[1]	6,356
U.S. DEPARTMENT DEFENSE			
Passed through the University of Southern California			
Eye Trauma and Visual Restoration Team	12.420	H48199	16,000
Total Federal Expenditures			<u>\$ 35,583,370</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, 2012**

PROGRAM	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Associate Degree Nursing	\$ 118,187	\$ -	\$ 118,187
Biotechnology Hub	40,000	14,721	54,721
Bridges to Stem Cell Research	583,497	222,869	806,366
CTE 140 Community Collaborative Projects	411,350	597,686	1,009,036
CTE 141 Collaborative Supplemental	130,000	48,265	178,265
CTE 142 Workforce Innovative Partnership	-	78,812	78,812
Basic Skills	177,540	55,489	233,029
Cal Grant "B"	1,900,000	-	1,900,000
Cal Grant "C"	25,000	-	25,000
Calworks	261,709	-	261,709
Child Development Program	214,311	-	214,311
Child Development Program	231,445	-	231,445
Child Development Program	4,417	2,690	7,107
Cooperative Agencies Resources For Education (CARE)	74,971	-	74,971
Disabled Students Program and Services (DSPS)	638,797	-	638,797
Economic Development - Applied Biological Technology	205,000	18,433	223,433
Extended Opportunity Program and Services (EOP&S)	92,285	-	92,285
Extended Opportunity Program and Services (EOP&S) prior year	-	48,890	48,890
Extended Opportunity Program and Services (EOP&S)	686,807	-	686,807
EOP&S (EOP&S) ONE TIME BOOK GRANT	8,849	-	8,849
Faculty/Staff Professional Development	-	459	459
Foster Care Education Program	74,371	-	74,371
Instructional Equipment	-	295,457	295,457
Instructional Equipment	-	23,535	23,535
Matriculation - Administration	375,000	-	375,000
Matriculation - Administration (Prior Year)	-	262,313	262,313
Matriculation - Credit	599,011	-	599,011
Matriculation - Non Credit	173,925	-	173,925
MESA	50,500	12,780	63,280
Student Financial Aid Administration	212,117	-	212,117
SFAA Augmentation	572,016	-	572,016
Staff Diversity - AB1725	9,913	26,921	36,834
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	\$ -	\$ 5,189	\$ 94,088	\$ 94,088
38,721	3,047	-	41,768	41,768
880,584	-	496,517	384,067	384,067
926,766	-	604,968	321,798	321,798
178,265	-	125,839	52,426	52,426
78,812	-	-	78,812	78,812
217,261	-	105,204	112,057	112,057
1,893,469	-	-	1,893,469	1,893,469
12,168	-	-	12,168	12,168
261,709	-	45,243	216,466	216,466
132,065	3,962	-	136,027	136,027
141,637	7,523	-	149,160	149,160
2,237	162	-	2,399	2,399
74,971	-	28,582	46,389	46,389
638,797	-	-	638,797	638,797
141,433	68,600	-	210,033	210,033
92,285	-	48,930	43,355	43,355
48,890	-	6,338	42,552	42,552
686,807	-	38,652	648,155	648,155
8,849	-	-	8,849	8,849
459	-	333	126	126
55,643	18,728	-	74,371	74,371
295,457	-	64,578	230,879	230,879
23,535	-	-	23,535	23,535
375,000	-	306,099	68,901	68,901
257,688	-	-	257,688	257,688
599,011	-	-	599,011	599,011
173,925	-	-	173,925	173,925
50,538	-	1,801	48,737	48,737
212,117	-	-	212,117	212,117
572,016	-	-	572,016	572,016
36,825	-	2,624	34,201	34,201
103,415	-	103,415	-	-
9,389	-	-	9,389	9,389
<u>\$ 9,320,021</u>	<u>\$ 102,022</u>	<u>\$ 1,984,312</u>	<u>\$ 7,437,731</u>	<u>\$ 7,437,731</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE
 AS OF JUNE 30, 2012**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession (Summer 2011 only)			
1. Noncredit**	142	-	142
2. Credit	1,377	-	1,377
B. Summer Intersession (Summer 2012 - Prior to July 1, 2012)			
1. Noncredit**	-	-	-
2. Credit	-	-	-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	16,489	-	16,489
(b) Daily Census Contact Hours	1,194	-	1,194
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	1,058	-	1,058
(b) Credit	361	-	361
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	634	-	634
(b) Daily Census Contact Hours	170	-	170
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>21,425</u>	<u>-</u>	<u>21,425</u>
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)			
H. Basic Skills Courses and Immigrant Education			
1. Noncredit**	581	-	581
2. Credit	684	-	684

** Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2012

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 25,894,020	\$ -	\$25,894,020	\$ 25,894,020	\$ -	\$ 25,894,020
Other	1300	19,437,070	-	19,437,070	19,437,070	-	19,437,070
Total Instructional Salaries		45,331,090	-	45,331,090	45,331,090	-	45,331,090
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	8,793,759	-	8,793,759
Other	1400	-	-	-	305,316	-	305,316
Total Noninstructional Salaries		-	-	-	9,099,075	-	9,099,075
Total Academic Salaries		45,331,090	-	45,331,090	54,430,165	-	54,430,165
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	16,269,108	-	16,269,108
Other	2300	-	-	-	4,262,426	-	4,262,426
Total Noninstructional Salaries		-	-	-	20,531,534	-	20,531,534
Instructional Aides							
Regular Status	2200	-	-	-	-	-	-
Other	2400	86,776	-	86,776	86,776	-	86,776
Total Instructional Aides		86,776	-	86,776	86,776	-	86,776
Total Classified Salaries		86,776	-	86,776	20,618,310	-	20,618,310
Employee Benefits	3000	9,743,628	-	9,743,628	23,251,315	67,075	23,318,390
Supplies and Material	4000	-	-	-	1,257,025	-	1,257,025
Other Operating Expenses	5000	-	-	-	8,870,427	(67,075)	8,803,352
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		\$ 55,161,494	\$ -	\$55,161,494	\$ 108,427,242	\$ -	\$ 108,427,242

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2012

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Exclusions							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	2,327,615	67,075	2,394,690
Objects to Exclude							
Rents and Leases	5060	-	-	-	249,616	-	249,616
Lottery Expenditures							-
Other Operating Expenses and Services	5000	-	11,316	11,316	3,085,687	(78,391)	3,007,296
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	11,316	11,316	5,662,918	(11,316)	5,651,602
Total for ECS 84362, 50 Percent Law		\$ 55,161,494	\$ (11,316)	\$55,150,178	\$ 102,764,324	\$ 11,316	\$ 102,775,640
Percent of CEE (Instructional Salary Cost/Total CEE)		53.68%		53.66%	100.00%		100.00%
50% of Current Expense of Education					\$ 51,382,162		\$ 51,387,820

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT (CCFS-311) WITH AUDITED FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012**

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

	<u>Internal Service Fund</u>
June 30, 2012, Annual Financial and Budget Report (CCFS-311) Reported Fund Balance	\$ 17,491,854
Adjustments to Decrease Fund Balance	
Claims liability	(2,030,136)
Claims liability benefits expense	<u>99,136</u>
Net Adjustments	<u>(1,931,000)</u>
Audited Fund Balance	<u><u>\$ 15,560,854</u></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, 2012**

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

Total Fund Balance and Due to Student Groups:

General Fund	\$ 22,665,160
Special Revenue Funds	117,325
Capital Project Funds	72,362,876
Debt Service Funds	11,923,219
Enterprise Funds	2,688,432
Internal Service Funds	15,560,854
Fiduciary Funds	<u>3,484,334</u>

Total Fund Balance and Due to Student Groups

- All District Funds

\$ 128,802,200

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	287,163,164	
Accumulated depreciation is	(93,754,683)	
Less fixed assets already recorded in the fiduciary fund	(6,221)	
Less fixed assets already recorded in the enterprise fund	<u>(24,226)</u>	193,378,034
Amounts held in trust on behalf of others (Trust and Agency Funds).		(2,789,058)

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.

(2,236,959)

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	123,152,975	
Certificates of participation	1,225,000	
Compensated absences	1,734,004	
Load banking	457,217	
Capital leases payable	139,928	
Other postemployment benefits (net)	3,329,078	
PARS supplementary retirement plan	<u>5,047,452</u>	
Total Long-Term Obligations		(135,085,654)
Total Net Assets		<u><u>\$ 182,068,563</u></u>

See accompanying note to supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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.

	<u>CFDA Number</u>	<u>Program Expenditures</u>
Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Assets:		\$ 36,156,771
Build America bonds subsidies	*	(584,025)
Nursing loan program	93.364	10,624
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 35,583,370</u></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 Annual (Actual) Attendance

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, 2012

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

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 BASIC 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) for the years ended June 30, 2012 and 2011, and have issued our report thereon dated December 6, 2012. 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.

As discussed in Note 14 to the financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding formula of Pasadena Area Community College District.

Internal Control Over Financial Reporting

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 a 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 previously defined. 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 2012-1 through 2012-3. 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.

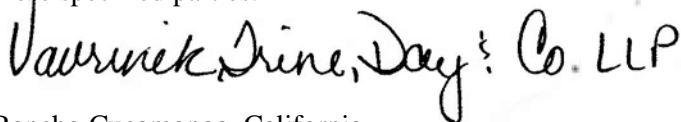
Compliance and Other Matters

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*.

We noted certain matters that we reported to management of Pasadena Area Community College District in a separate letter dated December 6, 2012.

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, 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, 2012



**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 the 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, 2012. 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.

As described in the accompanying schedule of findings and questioned costs as item 2012-4, the District did not comply with requirement regarding eligibility that is applicable to its Students Financial Aid Cluster: Federal Pell Grant Program, Federal Student Loans, Federal Work-Study Program, and Federal Supplemental Education Opportunity Grant. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Pasadena Area Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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.

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 2012-4 to be significant deficiencies.

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

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, 2012



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, 2012, and have issued our report thereon dated December 6, 2012.

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 in accordance with Section 400 of the Chancellor's Office *California Community Colleges Contracted District Audit Manual (CDAM)* issued in May 2012 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 Funding System
- 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 433 California Work Opportunity and Responsibility to Kids (CalWORKS)
- Section 435 Open Enrollment
- Section 437 Student Fee – Instructional and Other Materials
- Section 438 Student Fees – Health Fees and Use of Health Fees
- Section 474 Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Section 475 Disabled Student Programs and Services (DSPS)
- Section 476 Curriculum and Instruction
- Section 479 To Be Arranged (TBA) Hours

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

The District reports no attendance within class subject to the TBA Hours; 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 Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as items 2012-5 and 2012-6. 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.

A handwritten signature in black ink that reads "Vaurvik Fine, Day & Co. LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 6, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

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>Qualified</u>
Unqualified for all major programs except for the following program which was qualified:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.007, 84.033, <u>84.268, 84.375, and 93.364</u>	<u>Student Financial Assistance Cluster</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>
84.048	<u>Career and Technical Education Act Title I-C</u>
84.063, 84.007, 84.033, <u>84.268, 84.375, and 93.364</u>	<u>Student Financial Assistance Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</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, 2012

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*.

2012-1 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 – As reported in the prior year audit report, 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 is 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 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.

Management Response and Corrective Action Plan

The District has increased the rate structure from 1.15 percent to 1.25 percent. Additionally, the District will investigate both an insurance stop-loss option and budget options to decrease the unfunded liabilities.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

2012-2 Reporting of Attendance (CCFS-320)

Criteria or Specific Requirement

The District is required to report the attendance of students to the State Chancellor's Office three times each year on the CCFS-320 Report of Attendance. The attendance of students is reported on a Full Time Equivalent Student (FTES) basis and is one of the primary components in determining the funding received through the State Apportionment Process.

Condition

Significant Deficiency – The Second Period Report of Attendance submitted to the State Chancellor's Office reported FTES for students in credit courses in the amount of 38,388.20. The actual FTES which should have been claimed was 20,224.73. This is an overstatement of 18,163.47 FTES. The error was not discovered until the attendance reports for the year were submitted for audit.

Questioned Costs

None. The District's State Apportionment Revenue is capped at 19,900.04 FTES and is based upon the Annual CCFS-320 Report of Attendance which was accurately reported.

Cause

The District has been affected by staff turnover due to retirements and re-organization of several departments. The Second Period Report of Attendance was one of the first times current staff prepared the report. There does not appear to have been a detailed analysis of the reported attendance, including a comparison by class type and previously submitted attendance information, prior to submitting the report to the State Chancellor's Office. The Annual Report of Attendance was reviewed internally prior to submission and the components of student attendance were properly reported.

This reporting error was exacerbated by the current student system used to accumulate and report attendance which is significantly a manual process with a need to combine several reports to accurately reflect the Credit and Non-Credit attendance totals.

Recommendation

A systematic review of the components of the CCFS-320 Report of attendance should be developed and completed for each of the three attendance reporting periods. This review should include an analysis of the prior year's reporting period as well as the cumulative attendance in the current year. The manual calculations necessary to accurately report the attendance should be reviewed to ensure the inclusion of all student attendance by the proper classification.

Management's Response and Corrective Action Plan

The error occurred because the annualizer number table was not updated during the P2 submission process. This was strictly a data entry error and will not happen again.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

2012-3 System Access Controls

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.

Condition

Significant Deficiency – As reported in the prior year audit, we 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. Additionally, 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. One employee in the Fiscal Services department has the ability to change the number of hours worked for employees. We also noted one payroll employee who retired over a year ago was not removed from the access list as an authorized user of the HRS system; however, the ability to access District information appears to have been blocked.

Effect

Without adequate controls over system access the District is at risk of non-approved transactions and changes to employee time and data relating to payroll being processed. This also increases the risk of inappropriate payments to employees. Additionally, if the District is not removing access for terminated employees, there is a risk former employees that could access and alter sensitive 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.

Management Response and Corrective Action Plan

Corrective action was implemented in May 11, 2012.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

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

2012-4 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), and Federal Work-Study Program (CFDA #84.033)

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 – During the second academic term, the District Student Financial Aid Office awards and disburses Federal student financial aid based on the combined units enrolled during the winter and spring terms. As long as the combined units enrolled meet the requirements for a full-time, three-quarters time, or half-time enrollment, the aid will be awarded and disbursed accordingly. Currently, procedures are not in place to determine if students are properly disbursed financial aid if they drop in enrollment status from the winter term to the spring term but still maintain sufficient enrolled units in total to support the financial aid award.

Questioned Costs

None.

Context

Of the 40 student eligibility files tested, we noted three students who were disbursed less aid than they were entitled to receive when the number of units taken in the spring term was lower than the units enrolled during the winter term. These students did maintain sufficient units between the two terms in total to qualify for a full award.

Effect

The District Student Financial Aid Office is at risk of not properly disbursing Federal financial aid funds to students according to their enrollment status.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Cause

A review and calculation procedure is not currently in place to ensure that those students eligible to receive Federal student financial aid who take less units in spring than in winter are being disbursed the full aid that was earned.

Recommendation

The District Student Financial Aid Office should develop and implement procedures to review the units completed for all students who were enrolled in both the winter and spring terms and were eligible to receive Federal aid for both terms.

Management Response and Corrective Action Plan

Pasadena City College will disburse the Federal Pell Grant to students for periods of enrollment that make up the academic year. The six week winter intersession is a header for the spring term. The winter disbursement occurs one-time during the month of January. The Office of Scholarships & Financial Aid has a procedure to identify students who later registered for winter but were not paid and are retroactively considered eligible based on completed units with acceptable grades and remaining Pell Grant eligibility. In July 2012, financial aid staff used the *established* procedure to identify these students; however, our formula did not accurately report students who were enrolled less than half-time in the spring. In July 2012, the formula was modified to account for this anomaly and eligible winter 2012 students were paid accordingly. The payment transactions were presented to the auditor.

The procedure to disburse funds to all eligible winter enrolled students was established and in place for 2012-2013 with the expectation that it would be used for winter 2013; however, the college eliminated the intersession from the 2012-2013 academic calendar so we will not use the formula for 2012-2013. Should the college reinstate a winter intersession in the future, the formula and procedure to identify these students is in place.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

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

2012-5 TO BE ARRANGED HOURS (TBA)

Criteria or Specific Requirement

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

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

As noted in the 2010-2011 annual audit, a description of the TBA hours was not included in the course catalog and/or the official course outline of record. Additionally, the syllabus of record for the courses did not describe the TBA hours and requirements.

Questioned Costs

None. The District is currently reporting over 324 Credit FTES which are not funded through the State apportionment process.

Effect

The District is not in compliance with the TBA hours requirements.

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 and/or addenda to include the number of TBA hours required.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Management Response and Corrective Action Plan

The course description for all catalog courses that have TBA hours will be modified for the 2013-2014 college catalog to include the following statement:

This course may include hours scheduled using the "To Be Arranged" (TBA) scheduling format.

Additionally the official course outline of record and the course syllabus for each course section that requires TBA hours will be modified to provide students information and guidance on how TBA hours are to be scheduled and fulfilled. Division Deans/Department Chairs will review course syllabus to ensure that TBA hours are specified.

2012-6 EOPS and CARE - Advisory Committee Meetings

Criteria or Specific Requirement

CARE Program Guidelines require that each CARE program shall have an advisory committee that meets at least twice during each academic year. EOPS Program Guidelines require that each EOPS program shall have an advisory committee that meets at least once during each academic year.

Condition

The advisory committees for the CARE and EOPS programs did not hold any meetings during the 2011-2012 academic year.

Questioned Costs

There are no questioned costs associated with this finding.

Recommendation

CARE program officials need to ensure that the committee is formed and meets at least twice during the academic year. EOPS program officials need to ensure that the committee is formed and meets at least once during the academic year.

Management Response and Corrective Action Plan

The EOPS and CARE Advisory committees will be established based on Title V regulations. The recommendation will be made by the Interim Associate Dean of EOPS and CARE.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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 Findings and Questioned Costs.

Financial Statement Findings

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.

Current Status

Not implemented. See current year finding 2012-1.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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.

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.

Current Status

Not implemented. See current year finding 2012-3.

Federal Awards Findings

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).

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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.

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.

Current Status

Implemented.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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.

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.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

Current Status

Not implemented. See current year finding 2012-4

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), 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.

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.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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.

Current Status

Implemented.

State Awards Findings

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.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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.

Current Status

Implemented.

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.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Current Status

Not implemented. See current year finding 2012-5.