

PASADENA AREA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE**

June 30, 2013

PASADENA AREA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2013

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	
MANAGEMENT’S DISCUSSION AND ANALYSIS	i-vii
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position.....	1
Statement of Revenues, Expenses and Changes in Net Position	2
Statement of Cash Flows.....	3-4
Statement of Fiduciary Net Position	5
Statement of Changes in Fiduciary Net Position	6
NOTES TO FINANCIAL STATEMENTS	7-39
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Postemployment Healthcare Benefits Funding Progress	40
Notes to Required Supplementary Information	41
SUPPLEMENTARY INFORMATION:	
History and Organization	42
Schedule of Expenditures of Federal Awards	43-44
Schedule of State Financial Assistance - Grants.....	45
Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance	46
Reconciliation of Annual Financial and Budget Report With Audited Fund Statements	47
Reconciliation of 50 Percent Law Calculation.....	48-49
Proposition 30 Education Protection Account Expenditure Report.....	50
Notes to Supplementary Information	51

PASADENA AREA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2013

CONTENTS

	<u>Page</u>
OTHER INDEPENDENT AUDITOR’S REPORTS:	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52-53
Independent Auditor’s Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance Required by OMB Circular A-133	54-56
Independent Auditor’s Report on State Compliance	57-59
FINDINGS AND RECOMMENDATIONS:	
Schedule of Findings and Questioned Costs – Summary of Auditor Results.....	60
Schedule of Findings and Questioned Costs Related to Financial Statements	61-63
Schedule of Findings and Questioned Costs Related to Federal Awards	64
Schedule of Findings and Questioned Costs Related to State Awards	65-66
Status of Prior Year Findings and Questioned Costs	67-73



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Pasadena Area Community College District
1570 East Colorado Blvd.
Pasadena, CA 91106

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Pasadena Area Community College District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Trustees
Pasadena Area Community College District

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Pasadena Area Community College District as of June 30, 2013, and the results of its operations, changes in net position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the basic financial statements, in 2013 the Pasadena Area Community College District adopted new accounting guidance, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of postemployment healthcare benefits funding progress 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.

Board of Trustees
Pasadena Area Community College District

Other Information

Our audit was conducted for the purpose of forming an opinion on the Pasadena Area Community College District financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of Pasadena Area Community College District.

The supplementary section, including the schedule of expenditures of federal awards, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013 on our consideration of the Pasadena Area Community College 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* in considering the Pasadena Area Community College District's internal control over financial reporting and compliance.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
December 10, 2013

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2013

INTRODUCTION

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, 2013. This analysis is presented with comparative information from our June 30, 2013 and June 30, 2012, 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 Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement 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. 34, 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 Position 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 Position focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and non-operating, 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 with 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

Fiscal Year Ending June 30, 2013

FINANCIAL HIGHLIGHTS

- The District ended the year with a General Fund balance of \$23,351,288. The State Chancellor's Office recommends reserve levels of five percent of total General Fund expenditures. Therefore the District, at minimum, should set-aside \$6.3 million for economic uncertainties and has exceeded the recommended five percent reserve. With the States' fiscal policy of apportionment deferral, it was expected that the District would be required to fund \$22 million of expenses with its own money until the apportionment payments were received. While the ending balance is comprised primarily of cash and receivables, the Board of Trustees authorized the use of inter-fund borrowing and a \$10,000,000 Taxpayer Revenue Anticipation Note (TRAN) to ensure the orderly conduct of District business. It was not necessary to draw down on the TRAN but inter-fund borrowing was needed to cover cash flow requirements.
- The primary expenditure of the General Fund of the District is for the salaries and benefits of the Academic, Classified, and Administrative salaries of District employees. Approximately 87 percent of total General Fund expenditures were 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 met quarterly. The meetings are generally held 6:00 pm on the last Wednesday of January, April, July, and October at Pasadena City College and are open to the public.
- The District provided student financial aid to qualifying District students in the amount of approximately \$46.7 million. This represents an increase of \$8.8 million from the 2011-2012 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 2013 and 2012, were 21,138 and 21,425, respectively.
- The District purchased an Administrative Information System at a cost of \$8.6 million and reserved \$6.8 million for five years for capital lease payments.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2013**

CONDENSED FINANCIAL INFORMATION IS AS FOLLOWS

Statement of Net Position as of June 30,

	(in thousands) <u>2013</u>	(in thousands) <u>2012*</u>	<u>Change</u>
ASSETS			
Cash and investments	\$ 110,606	\$ 114,096	-3.1%
Receivables	26,144	30,385	-14.0%
Inventories and other assets	<u>2,077</u>	<u>1,791</u>	16.0%
Total	<u>138,827</u>	<u>146,272</u>	-5.1%
Capital assets, net of depreciation	<u>214,198</u>	<u>193,402</u>	10.8%
TOTAL ASSETS	<u>\$ 353,025</u>	<u>\$ 339,674</u>	3.9%
LIABILITIES			
Accounts payable and accrued liabilities	\$ 16,890	\$ 13,950	21.1%
Claims liability	4,449	3,856	15.4%
Other current liabilities	624	457	36.5%
Tax revenue anticipation notes (TRANS)	10,000		100.0%
Unearned revenue	5,746	4,713	21.9%
Long-term liabilities - current portion	<u>13,048</u>	<u>10,562</u>	23.5%
Total	<u>50,757</u>	<u>33,538</u>	51.3%
Long-term liabilities less current portion	<u>119,044</u>	<u>124,067</u>	-4.0%
TOTAL LIABILITIES	<u>169,801</u>	<u>157,605</u>	7.7%
NET POSITION			
Invested in capital assets, net of related debt	127,978	121,789	5.1%
Restricted	25,843	29,145	-11.3%
Unrestricted	<u>29,403</u>	<u>31,135</u>	-5.6%
TOTAL NET POSITION	<u>183,224</u>	<u>182,069</u>	0.6%
TOTAL LIABILITIES AND NET POSITION	<u>\$ 353,025</u>	<u>\$ 339,674</u>	3.9%

* 2012 balances have been reclassified to conform with 2013 presentation.

This schedule has been prepared from the District's Statements of Net Position, which is presented on an accrual basis of accounting whereby capital assets are capitalized, depreciated, and all liabilities of the District are recognized. A TRAN was issued during 2012-13 to ensure a positive cash flow prior to the receipt of property taxes.

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.

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 \$2.5 million as the District continued repayment of debt principal but also entered into a \$6.8 million capital lease to finance their new AIS technology.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2013

CONDENSED FINANCIAL INFORMATION IS AS FOLLOWS (continued)

Statement of Revenues, Expenses and Change in Net Position for the Year Ended June 30,

	(in thousands) <u>2013</u>	(in thousands) <u>2012*</u>	<u>Change</u>
Operating Revenues			
Net tuition and fees	\$ 20,593	\$ 20,188	2.0%
Grants and contracts, non-capital	44,183	46,943	-5.9%
Auxiliary sales and charges	4,580	5,660	-19.1%
Other operating revenues	<u> </u>	<u>158</u>	-100.0%
Total operating revenues	<u>69,356</u>	<u>72,949</u>	-4.9%
Operating Expenses			
Salaries and benefits	107,581	108,872	-1.2%
Supplies, materials and other operating expenses and services	28,766	27,656	4.0%
Financial aid	30,643	32,808	-6.6%
Depreciation	<u>9,264</u>	<u>9,127</u>	1.5%
Total operating expenses	<u>176,254</u>	<u>178,463</u>	-1.2%
Operating loss	<u>(106,898)</u>	<u>(105,514)</u>	1.3%
Non-operating revenues			
State apportionments, non-capital	66,337	67,301	-1.4%
Local property taxes	35,121	33,131	6.0%
State revenues	4,884	3,730	30.9%
Investment income, net	<u>424</u>	<u>1,730</u>	-75.5%
Total non-operating revenues	<u>106,766</u>	<u>105,892</u>	0.8%
Other revenues, (expenses), gains or (losses)			
Local revenues, capital	1,014	1,371	-26.0%
Interest expense	(3,238)	(6,022)	-46.2%
Other nonoperation revenues and transfers	<u>974</u>	<u>1,309</u>	-25.6%
Total other revenues, (expenses), gains or (losses)	<u>(1,250)</u>	<u>(3,342)</u>	-62.6%
Change in net position	<u>\$ (1,382)</u>	<u>\$ (2,964)</u>	-53.4%

* 2012 has not be revised for the implementation of GASB Statements No. 62 and 65; however, the amounts have been reclassified to conform to the 2013 presentation.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2013

CONDENSED FINANCIAL INFORMATION IS AS FOLLOWS (continued)

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. Two main components include 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 \$106.9 million is balanced by the other funding sources. Total District revenues were less than expenditures by \$1.4 million for the year ended June 30, 2013.

Auxiliary revenue consists primarily of bookstore 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.

Grants and contracts revenue 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 Notes 7-10 of the financial statements.

Statement of Cash Flows for the Year Ended June 30,

	(in thousands) 2013	(in thousands) 2012*	Change
Cash Provided By (Used in)			
Operating activities	\$ (94,685)	\$ (92,926)	-1.9%
Non-capital financing activities	117,753	83,581	40.9%
Capital and related financing activities	(27,056)	(20,736)	30.5%
Investing activities	499	1,919	-74.0%
Net increase/(decrease) in cash and cash equivalents	<u>\$ (3,489)</u>	<u>\$ (28,162)</u>	-87.6%

* 2012 has not be revised for the implementation of GASB Statements No. 62 and 65; however, the amounts have been reclassified to conform to the 2013 presentation.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2013

CONDENSED FINANCIAL INFORMATION IS AS FOLLOWS (continued)

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 federal, state and local grants along with student tuition and Bookstore sales. The primary operating expenses of the District is the payment of salaries and benefits to instructional and classified support staff, as well as District administrators. Non-capital sources were from increased property tax collections and the issuance of the TRAN. Capital financing activities relate to the spending of Measure P bond proceeds.

ECONOMIC FACTORS AFFECTING THE FUTURE OF PASADENA AREA COMMUNITY COLLEGE DISTRICT

The financial strength and stability of the Pasadena Area Community College District is closely aligned with California's economic position as State apportionments and property taxes allocated to the District represent approximately 80 percent of the unrestricted General Fund. Although the State economic picture improved in 2012-2013, the year ended with the college still experiencing a significant deficit factor with over \$4 million dollars in apportionment and redevelopment agency funds owed to the District. As a result of the passage of Proposition 30 and the improving State economy resulting in increased Proposition 98 funds, the fiscal situation improved, but it remains far from what is needed in terms of funding and stability. As a result, it continues to be prudent for the District to maintain its diligent practice of funding strong reserves to manage economic challenges.

The District is winding down its Measure P construction activities having recently approved \$11 million for Measure P approved construction projects. These projects will be completed over the next 18 months. The elevators upgrade project has begun and will continue.

The District's budget 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 unknowns in regards to the overall impact on the District's 2014-2015 and 2015-2016 fiscal year budgets and cash flows. These unknowns are tied to State decisions as to what to do with the increased revenues resulting from Proposition 30 and Proposition 98. Will these funds go to the Districts, to pay back deferrals, to fund CalSTRS, or other uses, and will whatever new funding that comes to the community colleges is one-time, on-going, or a combination? These and many other questions leave the system in a state of fiscal uncertainty making individual District and college planning challenging.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2013

ECONOMIC FACTORS AFFECTING THE FUTURE OF PASADENA AREA COMMUNITY COLLEGE DISTRICT (continued)

As described above, currently known facts, decisions, and/or conditions that are expected to have a significant effect on the District's financial position (net position) or results of operations overall are unknown since the final State budget has not been released at this time. Based on the Legislative Analyst's Office recent economic outlook, it is anticipated the District will receive a significant amount of one time deferral and Proposition 98 funding. The exact amount is not possible to predict with certainty but could be in the \$5 million to \$10 million range.

In addition, the District is offering a Supplementary Early Retirement Plan (SERP) in Fiscal Year 2013/14 to all employee units. With the exception of the Faculty Association, all units have accepted the Plan. Contract negotiations continue with the Faculty Association.

An analysis of the adopted and final expense budget amounts shows that the District has been successful at budgeting expenses appropriately, and working within the defined general fund budgeted dollar amounts.

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

BASIC FINANCIAL STATEMENTS

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

ASSETS

Current Assets:

Cash and cash equivalents	\$ 44,545,652
Accounts receivable, net	26,143,887
Inventories	884,941
Prepaid expenses	1,191,897

Total Current Assets 72,766,377

Non-current Assets:

Restricted cash	66,060,826
Land	10,396,408
Work in progress	4,020,789
Construction in progress	38,124,572
Capital assets, net of accumulated depreciation	161,655,782

Total Non-current Assets 280,258,377

TOTAL ASSETS \$ 353,024,754

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 10,618,681
Accrued liabilities	5,269,927
Accrued interest payable	1,001,652
Tax revenue anticipation notes (TRANS)	10,000,000
Unearned revenue	5,746,334
Estimated claims liability	4,449,000
Load banking	623,712
Compensated absences - current portion	1,003,709
General obligation bonds payable - current portion	8,539,129
Capital leases - current portion	1,361,625
Certificates of participation - current portion	625,000
Supplemental employee retirement plan - current portion	1,518,386

Total Current Liabilities 50,757,155

Non-current Liabilities:

Compensated absences	1,767,456
General obligation bonds payable	105,048,733
Capital leases	4,924,306
Other postemployment benefits (OPEB)	4,092,671
Supplemental employee retirement plan	3,210,470

Total Non-current Liabilities 119,043,636

TOTAL LIABILITIES 169,800,791

NET POSITION

Invested in capital assets, net of related debt	127,977,903
Restricted-expendable for:	
Capital projects	12,371,565
Debt service	11,220,546
Scholarships and loans	697,763
Other special services	1,553,486
Unrestricted	29,402,700

TOTAL NET POSITION 183,223,963

TOTAL LIABILITIES AND NET POSITION \$ 353,024,754

See the accompanying notes to the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING REVENUES	
Tuition and fees (gross)	\$ 36,713,437
Less: Scholarship discounts and allowances	<u>(16,120,245)</u>
Net tuition and fees	20,593,192
Grants and contracts, non-capital:	
Federal	34,683,755
State	6,960,223
Local	2,539,430
Auxiliary enterprise sales and charges	<u>4,579,622</u>
TOTAL OPERATING REVENUES	<u>69,356,222</u>
OPERATING EXPENSES	
Salaries	86,357,209
Employee benefits	21,223,306
Supplies, materials, and other operating expenses and services	25,834,827
Financial aid	30,642,982
Utilities	2,931,379
Depreciation	<u>9,264,101</u>
TOTAL OPERATING EXPENSES	<u>176,253,804</u>
Operating loss	<u>(106,897,582)</u>
NON-OPERATING REVENUES	
State apportionments, non-capital	66,336,536
Local property taxes	35,120,727
State taxes and other revenues	4,883,836
Investment income - non-capital	<u>424,217</u>
TOTAL NON-OPERATING REVENUES	<u>106,765,316</u>
Loss before other revenues, (expenses), gains or (losses)	<u>(132,266)</u>
OTHER REVENUES, (EXPENSES), GAINS OR (LOSSES)	
Local property taxes and revenues, capital	558,246
Investment income, capital	455,361
Other non-operating revenues	1,009,759
Transfer to fiduciary funds	(36,076)
Interest expense on capital asset-related debt	<u>(3,237,622)</u>
TOTAL OTHER REVENUES, (EXPENSES), GAINS OR (LOSSES)	<u>(1,250,332)</u>
Decrease in net position	<u>(1,382,598)</u>
NET POSITION, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	182,068,563
Cumulative effect of change in accounting principle (see Note 16)	<u>2,537,998</u>
NET POSITION, BEGINNING OF YEAR AFTER CUMULATIVE EFFECT	<u>184,606,561</u>
NET POSITION, END OF YEAR	<u>\$ 183,223,963</u>

See the accompanying notes to the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees (net)	\$ 22,489,674
Federal grants and contracts	36,815,277
State grants and contracts	6,034,977
Local grants and contracts	3,374,262
Enterprise sales and charges	4,586,155
Payments to suppliers	(30,576,820)
Payments to/on behalf of employees	(106,251,988)
Payments to/on behalf of students	<u>(31,156,359)</u>
Net cash used by operating activities	<u>(94,684,822)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	67,651,357
Property taxes	35,120,727
State tax and other revenues	4,980,786
Tax revenue anticipation notes, net	<u>10,000,000</u>
Net cash provided by non-capital financing activities	<u>117,752,870</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Local revenue for capital purposes	1,711,026
Interest on capital investments	398,766
Net purchases of capital assets	(17,259,661)
Principal and interest paid on capital debt	<u>(11,906,138)</u>
Net cash used by capital and related financing activities	<u>(27,056,007)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>498,675</u>
Net cash provided by investing activities	<u>498,675</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS (3,489,284)

CASH BALANCE, Beginning of Year 114,095,762

CASH BALANCE, End of Year \$ 110,606,478

Supplemental Disclosure

Non cash financing activities:	
Acquisition of fixed assets from capital lease financing	<u>\$ 4,664,984</u>
Cash paid for interest	<u><u>\$ 5,340,099</u></u>

See the accompanying notes to the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013**

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:**

Operating loss	\$ (106,897,582)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	9,264,101
Changes in assets and liabilities:	
Receivables, net	2,655,120
Inventory	66,564
Prepaid expenses	(2,175)
Accounts payable and accrued liabilities	(3,045,793)
Unearned revenue	1,033,290
Compensated absences and load banking	1,203,656
Estimated claims liability	593,000
Other postemployment benefits (OPEB)	763,593
Supplemental employee retirement plan	<u>(318,596)</u>
Net cash used by operating activities:	<u>\$ (94,684,822)</u>
Breakdown of ending cash balance:	
Cash and cash equivalents	\$ 44,545,652
Restricted cash and cash equivalents	<u>66,060,826</u>
Total	<u>\$ 110,606,478</u>

See the accompanying notes to the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	<u>Associated Student Body Fund</u>	<u>Trust and Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 321,794	\$ 1,053,936
Investments	120,550	1,068,650
Capital assets, net of accumulated depreciation	<u>17,738</u>	<u> </u>
TOTAL ASSETS	<u>460,082</u>	<u>2,122,586</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	10,000	
Amounts held in trust	<u> </u>	<u>2,122,586</u>
TOTAL LIABILITIES	<u>10,000</u>	<u>2,122,586</u>
NET POSITION		
Unrestricted	<u>450,082</u>	<u> </u>
TOTAL NET POSITION	<u>\$ 450,082</u>	<u>\$ </u>

See the accompanying notes to the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Year Ended June 30, 2013

	Associated Student Body Fund
ADDITIONS	
Other local sources	\$ 206,812
Interest and investment income	<u>193</u>
TOTAL ADDITIONS	<u>207,005</u>
DEDUCTIONS	
Supplies, materials, and other operating expenses and services	<u>340,728</u>
TOTAL DEDUCTIONS	<u>340,728</u>
Loss before other revenues, (expenses), gains or (losses)	<u>(133,723)</u>
OTHER REVENUES, (EXPENSES), GAINS OR (LOSSES)	
Transfer from district funds	<u>36,076</u>
TOTAL OTHER REVENUES, (EXPENSES), GAINS OR (LOSSES)	<u>36,076</u>
Decrease in net position	(97,647)
NET POSITION, BEGINNING OF YEAR	<u>547,729</u>
NET POSITION, END OF YEAR	<u>\$ 450,082</u>

See the accompanying notes to the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. REPORTING ENTITY

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*.

The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and a financial benefit or burden relationship is present and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Due to the nature and significance of their relationship with the District, including ongoing financial support of the District or its other component units, certain organizations warrant inclusion as part of the financial reporting entity. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. REPORTING ENTITY (continued)

2. The District, or its component units, is entitled to or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to or has the ability to otherwise access are significant to the District.

The following potential component unit has been excluded from the District's reporting entity:

The Pasadena City College Foundation - The Foundation is a separate not-for-profit corporation created for the benefit of the District and its students and organized for educational purposes. The Foundation is not included as a component unit because the third criterion was not met; the economic resources received and held by the Foundation are not significant to the District. During the fiscal year ended June 30, 2013, the Foundation expended, on-behalf of the District, approximately \$667,000 for scholarships and campus projects. To assist the Foundation in carrying out its purpose, the District provides administrative services to the Foundation. The District pays salaries and benefits of the executive director and accountant. In addition, working space for employees who perform administrative services for the Foundation is provided by the District at no charge. The donated services for the fiscal year ended 2013 was \$229,337. Separate financial statements for the Foundation may be obtained through the District.

B. FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FINANCIAL STATEMENT PRESENTATION (continued)

The District operates a Warrant Pass-Through agency fund as a holding account for amounts collected from employees for Federal taxes, state taxes and other contributions. The District had cash in the County Treasury amounting to \$454,333 on June 30, 2013, which represents withholdings payable. The Warrant Pass-Through Fund is not reported in the basic financial statements.

C. BASIS OF ACCOUNTING

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

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

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

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

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents, are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

2. Accounts Receivable

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

3. Inventories

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

4. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

5. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts designated for disbursement for acquisition or construction of noncurrent assets or segregated for the liquidation of long-term debt.

6. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 50 years for buildings and building and land improvements, 20 years for site improvements, 5 to 15 years for equipment.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

7. Accounts Payable and Accrued Liabilities

Accounts payable consists of amounts due to vendors for goods and services received prior to June 30. Accrued liabilities consist of salaries and benefits payable.

8. Unearned Revenue

Cash received for Federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures. The balance also includes amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year.

9. Compensated Absences and Load Banking

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as a liability of the District as compensated absences in the Statement of Net Position. The entire compensated absences liability is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement.

The District has accrued a liability for the amounts attributable to load banking. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

9. Compensated Absences (continued)

Accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires and within the constraints of the appropriate retirement systems.

10. Net Position

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

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

Restricted net position – nonexpendable: Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District had no restricted net position – nonexpendable.

Unrestricted net position: Unrestricted net position represents resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board, as designated, to meet current expenses for specific future purposes.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

11. State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year.

Any prior year corrections due to the recalculation in February of 2014 will be recorded in the year computed by the State.

12. Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has not been accrued in these financial statements because it is not material. Property taxes for debt service purposes have been accrued in the basic financial statements.

13. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$988,000 for STRS.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

14. Classification of Revenues

The District has classified its revenues as either operating or nonoperating revenues according to the following criteria:

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

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

15. Scholarship Discounts and Allowances

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. **BASIS OF ACCOUNTING** (continued)

16. Interest Capitalization

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of the District's general obligation bonds restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Interest revenue used to offset interest cost was \$315,662 for the year ended June 30, 2013. Total interest cost incurred for the year ended June 30, 2013 was \$4,104,792. Interest capitalized was \$867,170 and interest expensed was \$3,237,622 for the year ended June 30, 2013.

17. Estimates

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk 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 deposit policy for custodial risk. As of June 30, 2013, \$6,021,278 of the District's bank balance of \$8,031,488 was exposed to credit risk as follows:

Uninsured and uncollateralized	\$ <u>6,021,278</u>
Total	\$ <u>6,021,278</u>

Cash in County

In accordance with Title 4 and the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool. These pooled funds are carried at amortized cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2013, as provided by the County Treasurer, was \$105,194,733, as is based upon the District's pro-rata share of the fair value for the entire portfolio.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. The County investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments

Policies

Under provisions of California Government Code Sections 16430, 53601 and 53602 (and District Board Policy Section 6006), the District may invest in the following types of investments:

- State of California Local Agency Investment Fund (LAIF)
- Los Angeles County Investment Pools (OCIP)
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Fully insured and collateralized credit union accounts

The District did not violate any provisions of the California Government Code during the year ended June 30, 2013.

Investments at June 30, 2013 are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Certificates of Deposit	1,342 Days	\$839,797	Nonrated
Stocks		305,997	Nonrated
Mutual Funds		<u>43,406</u>	Nonrated
Total		<u>\$1,189,200</u>	

Interest Rate Risk

Interest rate risk is the risk that changes in 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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the exposure of the District's investments to this risk is provided above.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligations. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. The District follows Government Code to reduce exposure to investment credit risk. Information about the District's investment ratings is provided on the previous page. The District places no limit on the amount that may be invested in any one issuer. Certificates of Deposits which are not rated, nor are required to be rated. Ratings for the District's investments in Stocks and mutual funds were not available.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2013 consists of the following:

Federal and State	\$ 24,111,853
Miscellaneous	1,472,075
Student Receivable	<u>559,959</u>
	<u>\$ 26,143,887</u>

NOTE 4 - INTERFUND TRANSACTIONS:

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2013:

	Balance July 1, 2012	Adjustments*	Adjusted Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not depreciated:						
Land	\$ 10,396,408	\$	\$ 10,396,408	\$	\$	\$ 10,396,408
Work in progress				4,020,789		4,020,789
Construction in progress	<u>18,581,762</u>	<u>743,237</u>	<u>19,324,999</u>	<u>21,324,587</u>	<u>(2,525,014)</u>	<u>38,124,572</u>
Total capital assets not depreciated	<u>28,978,170</u>	<u>743,237</u>	<u>29,721,407</u>	<u>25,345,376</u>	<u>(2,525,014)</u>	<u>52,541,769</u>
Capital assets depreciated:						
Buildings and improvements	220,204,592	1,952,791	222,157,383	1,942,585		224,099,968
Site improvements	19,440,367		19,440,367	582,430		20,022,797
Equipment	<u>18,365,165</u>		<u>18,365,165</u>	<u>2,176,613</u>	<u>(106,590)</u>	<u>20,435,188</u>
Total of capital assets depreciated	<u>258,010,124</u>	<u>1,952,791</u>	<u>259,962,915</u>	<u>4,701,628</u>	<u>(106,590)</u>	<u>264,557,953</u>
Less accumulated depreciation for:						
Buildings and improvements	(72,704,974)		(72,704,974)	(7,109,876)		(79,814,850)
Site improvements	(9,022,741)	(158,030)	(9,180,771)	(1,026,747)		(10,207,518)
Equipment	<u>(11,858,319)</u>		<u>(11,858,319)</u>	<u>(1,127,478)</u>	<u>105,994</u>	<u>(12,879,803)</u>
Total accumulated depreciation	<u>(93,586,034)</u>	<u>(158,030)</u>	<u>(93,744,064)</u>	<u>(9,264,101)</u>	<u>105,994</u>	<u>(102,902,171)</u>
Governmental capital assets, net	<u>\$ 193,402,260</u>	<u>\$ 2,537,998</u>	<u>\$ 195,940,258</u>	<u>\$ 20,782,903</u>	<u>\$ (2,525,610)</u>	<u>\$ 214,197,551</u>

*Prior year amounts have been adjusted due to the implementation of GASB 62. See Note 16.

NOTE 6 - TAX REVENUE ANTICIPATION NOTES (TRANS):

The District issued \$10,000,000 of Tax Revenue Anticipation Notes dated December 11, 2012 through Los Angeles County Schools Pooled Financing Program (2012-13, Series B-1.) The notes mature on November 29, 2013 and yield 2.0% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements are that \$5,000,000 be deposited with the County Treasurer in September 2013, and a final payment of \$5,000,000 plus an amount sufficient to pay interest on the notes, be deposited in October 2013.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 - LEASES:

A. Capital Leases

The District leases equipment valued at approximately \$458,000 under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2013-14	\$ 41,489
2014-15	2,871
2015-16	2,871
2016-17	<u>2,632</u>
Total	49,863
Less amount representing interest	<u>(325)</u>
Present value of net minimum lease payments	<u>\$ 49,538</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 - LEASES: (continued)

B. Capital Leases - Winthrop

On December 1, 2012 the District entered into a lease agreement with Winthrop Resources Corporation (Winthrop) to finance \$8,339,044 over a period of five years for hardware, software and implementation services associated with the purchase and implementation of Ellucian/Banner and related hardware and network expansion costs. Lease schedules are prepared periodically by Winthrop to memorialize the actual equipment accepted for lease by Winthrop during the installation period. Each lease schedule shall contain a minimum of 25% of hardware costs and 65% of combined hardware cost and software/ Ellucian agreement software cost. The lease rate is fixed during the installation period until June 1, 2013. For fiscal year 2012-13, equipment and software of \$6,877,561 was purchased under the lease agreement. The principal amount of the lease is fully funded by the Debt Service Fund. Interest payments are funded each year by the General Fund. The repayment schedule as of June 30, 2013 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 1,320,590	\$ 155,803	\$ 1,476,393
2014-15	1,357,928	118,756	1,476,684
2015-16	1,396,501	80,182	1,476,683
2016-17	1,436,652	40,032	1,476,684
2017-18	<u>724,722</u>	<u>4,247</u>	<u>728,969</u>
Total	<u>\$ 6,236,393</u>	<u>\$ 399,020</u>	<u>\$ 6,635,413</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 - LEASES: (continued)

C. Operating Lease

The District has entered into various operating lease agreements for the use of facilities and equipment with lease terms in excess of one year. Annual future minimum lease payments under these agreements are approximately \$200,000 and extend through June 30, 2056.

Current year expenditures for operating leases is \$194,636. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

NOTE 8 – GENERAL OBLIGATION BONDS:

On March 5, 2002, the District voters authorized the issuance and sale of general obligation bonds totaling \$150,000,000. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, furnishing and equipping District facilities.

Series A general obligation bonds were sold in June 2003, for \$33,000,000. The bonds were issued as Current Interest Bonds.

Series B and C general obligation bonds were sold in July 2006, for \$87,657,774. The bonds were issued as Current Interest Bonds in the aggregate principal amount of \$65,000,000 (Series B) and as Capital Appreciation Bonds in the aggregate principal amount of \$22,657,774 (Series C).

The bonds were issued to refund certain outstanding general obligation bonds (Series A Bonds) of the District and to pay for certain capital improvements.

The proceeds associated with the refunding were deposited in an escrow fund for future repayment. The bonds are considered in substance defeased and are not recorded on the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 8 – GENERAL OBLIGATION BONDS: (continued)

The capital appreciation bonds were issued with maturity dates of August 1, 2007 through August 1, 2014. Prior to the applicable maturity date, each bond will accrete interest on the principal component. At June 30, 2013, \$3,974,039 in accreted interest is included in long-term debt.

Series D and E general obligation bonds were sold in September 2009, for \$52,000,000. The bonds were issued as Current Interest Bonds in the aggregate principal amount of \$26,705,000 (Series D) and as Build America Bonds in the aggregate principal amount of \$25,295,000 (Series E).

The Series E bonds are designated as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. With respect to the Series E bonds, the District expects to receive, on or about each bond payment date, a cash subsidy payment from the United States Treasury equal to the amount of interest determined at a federal tax credit rate under Section 54A(b)(3) of the tax code. The cash subsidy is deposited with the County and credited to the Bond Interest and Redemption Fund for debt service payments.

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series B, C, and D bonds included a premium of \$1,965,547, \$7,582,736, and \$3,582,086, respectively, which are amortized using the straight-line method. Amortization of \$78,622, \$947,842, and \$143,283 was recognized during the 2012-13 year for Series B, C and D bonds, respectively.

The outstanding bonded debt for Pasadena Area Community College District at June 30, 2013 is:

	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2012</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2013</u>
Series A	6/11/2003	2.0 - 5.0%	6/1/2023	\$ 33,000,000	\$ 980,000	\$	\$ 980,000	\$ -
Series B	7/12/2006	4.5 - 5.25%	8/1/2031	65,000,000	47,560,000		1,460,000	46,100,000
Series C	7/12/2006	3.95 - 4.44%	8/1/2014	22,657,774	15,134,772		5,845,366	9,289,406
Series D	9/30/2009	3.0 - 5.0%	8/1/2026	26,705,000	26,615,000		110,000	26,505,000
Series E	9/30/2009	6.5 - 6.7%	8/1/2034	25,295,000	25,295,000			25,295,000
					<u>\$ 115,584,772</u>	<u>\$ -</u>	<u>\$ 8,395,366</u>	<u>\$ 107,189,406</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 8 – GENERAL OBLIGATION BONDS: (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2013, are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 7,369,382	\$ 5,981,785	\$ 13,351,167
2015	7,390,024	6,293,231	13,683,255
2016	3,215,000	4,914,080	8,129,080
2017	3,345,000	4,774,355	8,119,355
2018	3,495,000	4,615,729	8,110,729
2019-23	20,280,000	20,181,830	40,461,830
2024-28	26,010,000	14,291,290	40,301,290
2029-33	25,595,000	5,808,577	31,403,577
2034-35	<u>10,490,000</u>	<u>1,066,635</u>	<u>11,556,635</u>
Total	<u>\$ 107,189,406</u>	<u>\$ 67,927,512</u>	<u>\$ 175,116,918</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 - CERTIFICATES OF PARTICIPATION:

The agreement dated September 4, 2003, is between the Pasadena Area Community College District as the "lessee" and the Los Angeles County Schools Regionalized Business Services Corporation as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed for the sole purpose of acquiring equipment and capital outlay and then leasing such items to the District.

The Corporation's funds for acquiring these items were generated by the issuance of \$5,380,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments.

Lease Payments - Lease payments are required to be made by the District under the lease agreement on each September 1 for use and possession of the equipment for the period commencing September 1, 2004 and terminating September 1, 2013. Lease payments will be funded in part from the proceeds of the Certificates. Interest payments will be funded each year by the General Fund. Interest rates range from 2.0% to 4.5% for the length of the issuance. The principal amount of the lease is dispersed through the Debt Service Fund.

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. Any amount held in the lease payment fund will be credited towards the lease payment due and payable. The trustee will pay from the lease payment fund the required principal and interest payments as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	<u>\$ 625,000</u>	<u>\$ 14,063</u>	<u>\$ 639,063</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 10 - LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2013 is shown below:

	Balance 6/30/2012*	Additions	Deletions	Balance 6/30/2013	Due in One Year
Compensated Absences	\$ 1,734,004	\$ 1,037,161	\$	\$ 2,771,165	\$ 1,003,709
Capital Leases	139,928		90,390	49,538	41,035
Capital Lease - Winthrop		6,877,561	641,168	6,236,393	1,320,590
G. O. Bonds and Accreted Interest	115,584,772		8,395,366	107,189,406	7,369,382
Bond Premium	7,568,203		1,169,747	6,398,456	1,169,747
COPS	1,225,000		600,000	625,000	625,000
Other postemployment benefits obligation	3,329,078	763,593		4,092,671	
Supplemental Employee Retirement Plan	5,047,452	1,282,617	1,601,213	4,728,856	1,518,386
	<u>\$ 134,628,437</u>	<u>\$ 9,960,932</u>	<u>\$ 12,497,884</u>	<u>\$ 132,091,485</u>	<u>\$ 13,047,849</u>

*Prior year has been restated to conform to current year classifications.

Liabilities are liquidated by the General Fund for governmental activities, including capital leases, compensated absences, net OPEB obligations and supplemental employee retirement plan. The capital lease principal balance with Winthrop and COPS is fully funded in the Debt Service Fund. General obligation bond liabilities are liquidated through property tax collections as administered by the County Controller's office through the Bond Interest and Redemption Fund.

NOTE 11 - EMPLOYEE RETIREMENT PLANS:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS) and part-time, seasonal and temporary employees and employees not covered by STRS or PERS are members of the Accumulated Program for part-time and Limited Services Employees (APPLE) plan..

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (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 death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Employees' Retirement System (PERS) (continued)

Funding Policy

Active plan members are required to contribute 7.0% of their salary; currently the District contributes the employees' portion for California School Employees Association and confidential staff members. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2012-13 was 11.417% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

Year Ended <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2011	\$4,223,334	100%	\$2,421,742	100%
2012	3,890,391	100%	2,223,229	100%
2013	4,042,431	100%	2,461,548	100%

Accumulation Program for Part-Time and Limited Services Employees (APPLE)

Plan Description

The Accumulation Program for Part-Time and Limited Service Employees (APPLE) is a defined contribution plan qualifying under Section 401(a) and 501 of the Internal Revenue Code. This plan covers part-time, seasonal and temporary employees and employees not covered by Section 3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the District are established and may be amended by APPLE Administration Committee.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Accumulation Program for Part-Time and Limited Services Employees (APPLE)

(continued)

Funding Policy

Contributions of 3.75% of covered compensation of eligible employees are made by the employee. Total contributions were made in the amount of \$180,960 during the fiscal year. The total amount of covered compensation was \$4,826,588. Total contributions made are 100% of the amount of contributions required for the fiscal year 2012-13. Total required contribution is 7.5%, the District contributes 3.75% in addition to the employees contribution of 3.75%.

NOTE 12 – SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN:

The District has a Supplemental Employee Retirement Plans for faculty and management/confidential employees. The accumulated future liability for the District at June 30, 2013 is \$4,728,856, and has been reflected in these financial statements.

In both 2011-12 and 2012-13, the Board of Trustees approved the implementation of the District's Supplemental Employee Retirement Plan for faculty, management, confidential and non-management employees.

A total of 49 faculty, 17 management, 1 confidential, and 42 non-management employees participate in the plan. The total cost to the District is approximately \$7.6 million. The District will pay benefits of \$1.6 million annually through 2016-17.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS:

Plan Description

The District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health and dental benefits to all full-time Faculty, Management and Classified employees who have reached age 55 and retire with at least 14 years of service, however, District-paid retiree benefits begin at age 55 and terminate on the June 30th for the fiscal year during which the retiree reaches age 65. Beyond this age, the District pays \$1,440 annually to assist retirees in obtaining Medicare Supplement coverage. Benefit provisions are established through negotiations between the District and the bargaining unions representing employees and are renegotiated each three-year bargaining period. The Retiree Health Plan does not issue a separate financial report.

Funding Policy

The District currently finances benefits on a pay-as-you-go basis. The District contributes 100 percent of the cost of current year premiums for eligible retired plan members and their spouses as applicable. For fiscal year ended 2013, the District and member contributions to the plan totaled \$1,359,276.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Annual OPEB Cost and Net OPEB Obligation

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

Annual required contribution	\$ 2,113,557
Interest on net OPEB obligation	166,453
Adjustment to annual required contribution	<u>(157,150)</u>
Annual OPEB cost (expense)	2,122,860
Contributions made	<u>(1,359,267)</u>
Change in net OPEB obligation	763,593
Net OPEB obligation - beginning of year	<u>3,329,078</u>
Net OPEB obligation - end of year	<u><u>\$ 4,092,671</u></u>

The District’s annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended 2013 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 1,648,124	58.0%	\$ 2,202,301
6/30/2012	2,152,275	48.0%	3,329,078
6/30/2013	2,122,860	64.0%	4,092,671

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Funding Status and Funding Progress

As of December 1, 2011, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$15,674,507. The covered payroll (annual payroll of active employees covered by the plan) was \$54,747,495, and the ratio of the UAAL to the covered payroll was 28.6%. Although the plan has no segregated assets, the District does maintain a retiree benefits fund to designate resources for retiree health care costs. At June 30, 2013, the fund's designated balance was \$15,672,858.

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

Actuarial Methods and Assumptions

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 - POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Actuarial Methods and Assumptions (continued)

In the December 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employers own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4 percent. Both rates included a 3.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level dollar of projected payroll on a closed basis. The remaining amortization period will expire on June 30, 2038.

NOTE 14 - JOINT POWERS AGREEMENT:

The District participates in three joint powers agreement (JPA) entities; the Statewide Association of Community Colleges (SWACC); and the Schools Excess Liability Fund (SELF) and the Schools Alliance for Workers' Compensation Excess Group Purchase (SAWCX II).

SWACC provides liability and property insurance for forty-seven community colleges. SWACC is governed by a Board comprised of a member of each of the participating districts. The board controls the operations of SWACC, including selection of management and approval of members beyond their representation on the Board. Each member shares surpluses and deficits proportionately to its participation in SWACC.

SELF arranges for and provides a self-funded or additional insurance for excess liability fund for approximately 1,100 public educational agencies. SELF is governed by a board of 16 elected voting members, elected alternates, and two ex-officio members. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SELF's board of directors and shares surpluses and deficits proportionately to its participation in SELF.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 14 - JOINT POWERS AGREEMENT: (continued)

SAWCX II provides reinsurance for workers' compensation claims above the District's self-insured limit.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Pasadena Area Community College District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

The relationships between the Pasadena Area Community College District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes.

Condensed financial information of SWACC, SELF and SAWCX II for the most current information available is as follows:

	SWACC 6/30/2013 (Unaudited)	SELF 6/30/2013 (Audited)	SAWCX II 6/30/2013 (Unaudited)
Total assets	\$ 52,337,870	\$ 48,212,000	\$ 18,193,333
Total liabilities	<u>21,094,905</u>	<u>15,640,000</u>	<u>17,401,257</u>
Retained earnings	<u>\$ 31,242,965</u>	<u>\$ 32,572,000</u>	<u>\$ 792,076</u>
Total revenues	\$ 19,688,136	\$ 10,447,000	\$ 1,493,593
Total expenditures	<u>16,053,764</u>	<u>11,533,000</u>	<u>1,858,252</u>
Net increase/(decrease)	<u>\$ 3,634,372</u>	<u>\$ (1,086,000)</u>	<u>\$ (364,659)</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 15 - INTERNAL SERVICE FUND:

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; natural disasters; and medical claims. During the fiscal year, the District maintained an Internal Service Fund to account for and finance its uninsured risks of loss. The Self Insurance Fund provides coverage for up to a maximum of \$500,000 for each workers' compensation claim, \$50,000 for each general liability claim and \$25,000 for each property damage claim. The District participates in a JPA to provide excess insurance coverage above the self-insured retention level for workers' compensation claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

Funding of the Internal Service Fund is based on estimates of the amounts needed to pay prior and current year claims. Workers' Compensation claims are charged to the respective funds which generate the liability and the Property and Liability claims are paid by the General Fund.

At June 30, 2013, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The present value of the liability is estimated at \$4,449,000. Changes in the reported liability are shown below:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Ending Fiscal Year Liability
Property and Liability	\$ 225,000	\$ 850,000	\$ (850,000)	\$ 225,000
Workers' Compensation	3,631,000	1,693,000	(1,100,000)	4,224,000
	\$ 3,856,000	\$ 2,543,000	\$ (1,950,000)	\$ 4,449,000

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 16 – CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE:

The beginning net position of the District has been increased by \$2,537,998 to record capitalized interest net of depreciation. In accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, interest costs incurred on the District's general obligation bonds during the period assets were under construction are considered part of the historical costs of acquiring the asset.

NOTE 17 - COMMITMENTS AND CONTINGENCIES:

A. Litigation

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

B. State and Federal Allowances, Awards and Grants

The District has received state and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

C. Purchase Commitments

As of June 30, 2013, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$14,878,000. Projects will be funded through bond proceeds, state funds and general funds.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**NOTE 18 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE:**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 67

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This standard is designed to improve financial reporting by state and local governmental pension plans. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*. This statement is effective for fiscal year 2013-14 financial statements.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This standard is designed 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 provided by other entities. This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*. This statement is effective for fiscal year 2014-15 financial statements.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations*. This statement provides guidance on the measurement of assets and liabilities in a government merger or when a government acquires another entity, or its operations, in exchange for significant consideration. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This statement is effective for fiscal year 2014-15 financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**NOTE 18 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE: (continued)**

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government to recognize a liability when qualitative factors and historical data indicate that more likely than not it will be required to make a payment on a nonexchange financial guarantee; the government that issued the guaranteed obligation would recognize a revenue to the extent of the reduction in its guaranteed liabilities. This statement is effective for fiscal year 2013-14 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
8/25/2008	\$	\$ 13,305,204	\$ 13,305,204	0%	\$ 60,439,599	22.01%
6/10/2010		13,381,136	13,381,136	0%	51,831,265	25.82%
12/1/2011		15,674,507	15,674,507	0%	54,747,495	28.60%

See the accompanying notes to the required supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2013

NOTE 1 - PURPOSE OF SCHEDULE:

A. Schedule of Postemployment Healthcare Benefits Funding Progress

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

SUPPLEMENTARY INFORMATION

PASADENA AREA COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2013

The Pasadena Area Community College District was established in 1967 and serves communities in the Los Angeles County. There were no exterior boundary changes during the current year. The District currently operates one college.

BOARD OF TRUSTEES

<u>Member</u>	<u>Office</u>	<u>Term Expiration</u>
John H. Martin	President	December 2015
Anthony R. Fellow, PhD	Vice President	December 2013
Berlinda Brown	Clerk	December 2013
Geoffrey L. Baum	Member	December 2013
Jeanette Mann, PhD	Member	December 2015
William E. Thomson, Jr.	Member	December 2015
Linda S. Wah	Member	December 2013
Hannah Israel	Student Trustee	June, 2013

DISTRICT EXECUTIVE OFFICERS

Mark W. Rocha, PhD	Superintendent/President and Board of Trustee Secretary
Robert H. Bell, EdD	Assistant Superintendent/Senior Vice President, Academic and Student Affairs
Robert B. Miller	Assistant Superintendent/Senior Vice President, Business and College Services
Dwayne Cable*	Vice President, Information Technology

*Resigned effective July 1, 2013

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
Federal Categorical Aid Programs:			
Department of Education:			
Direct:			
Student Financial Aid Cluster:			
Student Financial Aid Administrative Expenses	84.000	N/A	\$ 37,830
Supplemental Educational Opportunities Grant (SEOG)	84.007	N/A	454,962
Supplemental Educational Opportunity Grant Administration	84.007	N/A	53,139
Federal Work Study	84.033	N/A	452,486
Federal Work-Study Program/ACA	84.033	N/A	916
Pell	84.063	N/A	26,230,770
Direct Loans - William D. Ford Program	84.268	N/A	1,689,559
Total Student Financial Aid Cluster:			28,919,662
Passed through from the California Department of Education:			
TRIO Cluster:			
Student Support Services	84.042A	(1)	264,283
Upward Bound	84.047A	(1)	371,021
Upward Bound Math and Science	84.047M	(1)	329,511
Talent Search	84.044A	(1)	271,831
Total TRIO Cluster:			1,236,646
Department of Agriculture:			
Direct:			
Forest Reserve	10.665	N/A	4,291
Summer Food Service Program for Children	10.559	N/A	2,839
Passed through from the California Department of Education:			
Child and Adult Care Food Program	10.558A	3278-1A	40,205
National Science Foundation:			
Direct:			
Providing More to Increase Stem Majors	47.076	N/A	22,114
Department of Education:			
Direct:			
CCAMPIS - Child Care Program	84.355A	N/A	160,630
XL for Life: Transforming Developmental Education at PCC to Improve Hispanic Student Success	84.031S	N/A	533,411
Developing an Accessible Intersegment STEM Pathway in Environmental Sciences for Underserved Hispanic Students	84.031C	N/A	1,191,620
Design Technology Pathway	84.031S	N/A	505,529
Passed through from the California Department of Education:			
Workforce Investment Act, Title II: Adult Education and Family Literacy Act, Section 225, Section 231, and English Literacy and Civics Education	84.002	(1)	297,404

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
Department of Education: (continued)			
Passed through from the California Community College Chancellor's Office:			
Career and Technical Education (CTE):			
Perkins, Title I, Part C	84.048	03578	629,920
Perkins, Title I, Part C, Transitions	84.048A	(1)	49,389
Department of Health and Human Services :			
Temporary Assistance for Needy Families (TANF) Cluster			
Passed through from the California Community College Chancellor's Office:			
Temporary Assistance for Needy Families (TANF)	93.558	(1)	39,319
Passed through from the County of Los Angeles Department of Social Services:			
Temporary Assistance for Needy Families (TANF)	93.558	CCS09010	37,195
Total Temporary Assistance for Needy Families (TANF) Cluster			<u>76,514</u>
Direct:			
Nursing Loan Program	93.364	N/A	4,500
Passed through from the California Community College Chancellor's Office:			
Personal and Home Care Aide State Training Program	93.512	F11-0085	142,372
Foster Care Education Program	93.658	(1)	58,248
Passed through from the California Department of Education Office:			
Child Care and Development Block Grant	93.575	000324	45,609
Child Care and Development Block Grant - Mandatory Match	93.596	000321	82,900
Passed through from the Foundation for California Community Colleges:			
Youth Empowerment Strategies for Success - Los Angeles (YESS-LA)	93.674	(1)	66,808
Passed through from the Community Colleges Foundation:			
Model Approach to Partnership in Parenting (MAPP)	93.674	(1)	22,500
Department of Commerce			
Passed through from the Foundation for California Community Colleges:			
Broadband Technology Opportunities Program (BTOP)	11.557	N/A	1,495
Small Business Administration:			
Direct:			
Small Business Development	59.037	N/A	5,124
Total Federal Expenditures			<u>\$ 34,099,730</u>
Reconciliation to Federal Revenue:			
Total federal program expenditures			\$ 34,099,730
Revenues in excess of expenditures related to federal entitlement program:			
Build America Bonds			<u>584,025</u>
Total Federal Revenue			<u>\$ 34,683,755</u>
Student Financial Aid Loan Programs:			
Pasadena Area Community College District had the following loan balance outstanding as of 6/30/13:			
Perkins Program	84.038		<u>\$ 23,732</u>

Note: (1) Pass-through entity identifying number not readily available.
N/A Pass-through entity identifying number not applicable

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
For the Fiscal Year Ended June 30, 2013

Program Name	Program Revenues			Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Unearned Revenue		
State Categorical Aid Programs:					
Associate Degree Nursing	\$ 104,466	\$ 32,346	\$	\$ 136,812	\$ 136,812
Biotechnology Hub	24,000	28,953	2,036	50,917	50,917
Bridges to Stem Cell Research	392,055	164,132	98,320	457,867	457,867
CTE 140 Community Collaborative Projects	425,013	204,522	220,867	408,668	408,668
CTE 141 Collaborative Supplemental	125,839	121,243	123,541	123,541	123,541
Basic Skills	266,975		107,896	159,079	159,079
Calworks	266,177		53,706	212,471	212,471
Child Development Program	101,997			101,997	101,997
Child Development Program	112,519		12,466	100,053	100,053
Child Development Program	1,859	161		2,020	2,020
Cooperative Agencies Resources For Education (CARE)	50,138			50,138	50,138
Disabled Students Program and Services (DSPS)	651,407			651,407	651,407
Economic Development - Applied Biological Technology	123,000	75,230		198,230	198,230
Extended Opportunity Program and Services (EOP&S)	92,285		46,498	45,787	45,787
Extended Opportunity Program and Services (EOP&S) prior year	27,804			27,804	27,804
Extended Opportunity Program and Services (EOP&S)	682,495		9,421	673,074	673,074
Faculty/Staff Professional Development	333		333	-	-
Foster Care Education Program	53,985	14,877		68,862	68,862
CCC Student Mental Health Program	38,695	55,827		94,522	94,522
Instructional Equipment	64,578		44,140	20,438	20,438
Matriculation - Administration	575,000		433,106	141,894	141,894
Matriculation - Administration (Prior Year)	305,422			305,422	305,422
Matriculation - Credit	595,972			595,972	595,972
Matriculation - Non Credit	173,925			173,925	173,925
MESA	30,300			30,300	30,300
Student Financial Aid Administration	283,525			283,525	283,525
SFAA Augmentation	565,466			565,466	565,466
Staff Diversity - AB1725	12,537		10,178	2,359	2,359
Total State Programs	\$ 6,147,767	\$ 697,291	\$ 1,162,508	\$ 5,682,550	\$ 5,682,550

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2013**

	Annual - Factored FTES		
	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2012 only)			
1. Noncredit ¹	125.56		125.56
2. Credit	712.88		712.88
B. Summer Intersession (Summer 2013 - Prior to July 1, 2013)			
1. Noncredit ¹	88.01		88.01
2. Credit	2,411.50		2,411.50
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,446.35	(40.33)	14,406.02
(b) Daily Census Contact Hours	606.61	(0.96)	605.65
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	1,144.11		1,144.11
(b) Credit	503.72		503.72
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	1,100.24		1,100.24
(b) Daily Census Procedure Courses	-		-
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	21,138.98	(41.29)	21,097.69
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	-		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit ¹	213.43		
(b) Credit	571.16		
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	379.70		
Centers FTES			
Noncredit	1,354.59		
Credit	-		

¹ Including Career Development and College Preparation (CDCP) FTES
N/A - Workload Measure is not applicable

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FUND STATEMENTS
For the Fiscal Year Ended June 30, 2013

	<u>Self-Insurance Fund</u>
June 30, 2013 Annual Financial and Budget Report (Form CCFS-311) Fund Balance	\$17,993,967
Adjustments and Reclassifications:	
Understatement of Claims Liability	<u>(2,524,000)</u>
June 30, 2013 Audited Financial Statements Fund Balance	<u>\$15,469,967</u>

Additional entries were made to comply with the GASB 34/35 reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF 50 PERCENT LAW CALCULATION
For the Fiscal Year Ended June 30, 2013

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) 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	\$ 25,976,501	\$	\$ 25,976,501	\$ 25,976,501	\$	\$ 25,976,501
Other	1300	19,941,734		19,941,734	19,941,734		19,941,734
Total Instructional Salaries		45,918,235		45,918,235	45,918,235		45,918,235
Non-Instructional Salaries							
Contract or Regular	1200			-	8,359,915		8,359,915
Other	1400			-	590,637		590,637
Total Non-Instructional Salaries		-		-	8,950,552		8,950,552
Total Academic Salaries		45,918,235	-	45,918,235	54,868,787	-	54,868,787
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100			-	16,752,497		16,752,497
Other	2300			-	3,841,152		3,841,152
Total Non-Instructional Salaries		-	-	-	20,593,649	-	20,593,649
Instructional Aides							
Regular Status	2200			-			-
Other	2400	79,210		79,210	79,210		79,210
Total Instructional Aides		79,210		79,210	79,210		79,210
Total Classified Salaries		79,210	-	79,210	20,672,859	-	20,672,859
Employee Benefits	3000	11,158,092		11,158,092	23,862,218		23,862,218
Supplies and Materials	4000			-	1,041,774		1,041,774
Other Operating Expenses	5000			-	9,237,085		9,237,085
Equipment Replacement	6420			-			-
Total Expenditures Prior to Exclusions		57,155,537	-	57,155,537	109,682,723	-	109,682,723

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF 50 PERCENT LAW CALCULATION
For the Fiscal Year Ended June 30, 2013

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	1,220,603		1,220,603	1,220,603		1,220,603
Student Health Services Above Amount Collected	6441			-			-
Student Transportation	6491			-			-
Non-instructional Staff-Retirees' Benefits and Retirement Incentives	6740			-	1,345,202		1,345,202
Objects to Exclude							
Rents and Leases	5060			-	235,012		235,012
Lottery Expenditures							
Academic Salaries	1000			-			-
Classified Salaries	2000			-			-
Employee Benefits	3000			-			-
Supplies and Materials	4000			-			-
Software	4100			-			-
Books, Magazines, & Periodicals	4200			-			-
Instructional Supplies & Materials	4300			-			-
Noninstructional, Supplies & Materials	4400			-			-
Total Supplies and Materials							
Other Operating Expenses and Services	5000			-	2,781,998		2,781,998
Capital Outlay	6000			-			-
Library Books	6300			-			-
Equipment	6400			-			-
Equipment - Additional	6410			-			-
Equipment - Replacement	6420			-			-
Total Equipment							
Total Capital Outlay							
Other Outgo	7000			-			-
Total Exclusions		1,220,603	-	1,220,603	5,582,815	-	5,582,815
Total for ECS 84362, 50% Law		\$ 55,934,934	-	\$ 55,934,934	\$104,099,908	-	\$104,099,908
Percent of CEE (Instructional Salary Cost / Total CEE)		53.73%	0%	53.73%	100%	0%	100%
50% of Current Expense of Education					\$ 52,049,954	-	\$ 52,049,954

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2013

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedules of Expenditures of Federal Awards and State Financial Assistance-Grants

The audit of the Pasadena Area Community College District for the year ended June 30, 2013 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance – Grants was prepared on the modified accrual basis of accounting.

B. Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance

The Schedule of Workload Measures for State General Apportionment represents the basis of apportionment of the Pasadena Area Community College District's annual source of funding.

C. Reconciliation of Annual Financial and Budget Report with Audited Fund Statements

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Annual Financial and Budget Report (Form CCFS-311).

D. Reconciliation of 50 Percent Law Calculation

This schedule reports any audit adjustments made to the 50 percent law calculation (Education Code Section 84362).

E. Proposition 30 Education Protection Account Expenditure Report

This schedule reports how funds received from the passage of Proposition 30 Education Protection Act were expended.

OTHER INDEPENDENT AUDITOR'S REPORTS



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

The Board of Trustees
Pasadena Area Community College District
1570 East Colorado Blvd
Pasadena, CA 91109

We have audited, 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, the basic financial statements of the Pasadena Area Community College District (the District) as of and for the year ended June 30, 2013 and have issued our report thereon dated December 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 financial statements will not be prevented or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as finding numbers 13-1 and 13-2 that we consider to be significant deficiencies.

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

Compliance and Other Matters

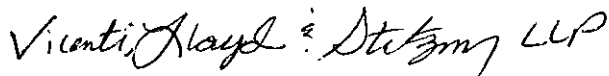
As part of obtaining reasonable assurance about whether Pasadena Area Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

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. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
December 10, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

The Board of Trustees
Pasadena Area Community College District
1570 East Colorado Blvd.
Pasadena, CA 91109

Report on Compliance for Each Major Federal Program

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 the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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, yet important enough to merit attention by those charged with governance.

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vicenti Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
December 10, 2013

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

The Board of Trustees
Pasadena Area Community College District
1570 East Colorado Blvd.
Pasadena, CA 91109

We have audited the Pasadena Area Community College District's (the District) compliance with the types of compliance requirements described in the *2012-13 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office for the year ended June 30, 2013. The District's State compliance requirements are identified below.

Management's Responsibility

Management is responsible for compliance with the State laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the types of compliance requirements referred to below.

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 the *2012-13 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Compliance Requirements Tested

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Section 421	Salaries of Classroom Instructors
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	CalWORKS
Section 435	Open Enrollment
Section 437	Student Fees – Instructional and Other Materials
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

In our opinion, the Pasadena Area Community College District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *2012-13 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office, and which is described in the accompanying schedule of findings and questioned costs as item 13-3. Our opinion on each state program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2012-13 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office. Accordingly, this report is not suitable for any other purpose.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

Glendora, CA

December 10, 2013

FINDINGS AND RECOMMENDATIONS

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS

June 30, 2013

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified not considered
to be material weaknesses? X Yes None reported
Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Yes X No
Significant deficiency (ies) identified not considered
to be material weaknesses? Yes X None reported
Type of auditor's report issued on compliance for
major programs: Unmodified
Any audit findings disclosed that are required to be
Reported in accordance with Circular A-133,
Section .510(a) Yes X No

Identification of major programs tested

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.000, 84.007, 84.033, 84.063, and 84.268 84.031C	Student Financial Aid Cluster Developing an Accessible Intersegment STEM Pathway in Environmental Sciences for Underserved Hispanic Students
84.031S	Design Technology Pathway

Dollar threshold used to distinguish between Type A
and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No*

*Low risk auditee determination relates to the audit of Federal Awards as defined in OMB Circular A-133 and allows for reduced audit coverage when testing Federal major programs.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2013

Note: Each of the findings and recommendations below include details about the criteria or specific requirements, the condition, the effect and the cause. Questioned costs, if applicable are listed separately. The district response that follows the finding is the District's corrective action plan.

**FINDING 13-1: INTERNAL CONTROLS:
HUMAN RESOURCES (HR) AND PAYROLL**

Finding: During our review of internal control over Human Resources and Payroll processing, we noted the following deficiencies:

- Payroll tax returns are not reviewed for accuracy.
- Segregation of duties related to payroll check distribution is deficient. The same individual prepares payroll runs and has custody of physical checks for distribution.
- Pay rates for new hires are determined by HR clerks based on degree and work experience documentation. There is no documented review or approval after the initial determination to ensure accuracy.
- Supporting documentation was not maintained to support an individual's election for cash in lieu.
- Communication between HR and payroll when an individual is terminated is deficient. We tested the benefits coverage for three terminated employees and noted that dental insurance coverage is still active for two of the three employees as of the date of the audit.
- There are inconsistencies between accrued vacation provisions in the management meet and confer agreements and their implementation through the payroll function.

Recommendation: Establish procedures to address the control risks noted above. To prevent further loss of resources, reconcile insurance billings to insure those receiving benefits are current and eligible employees. In addition, align the accrued vacation provisions with actual practice.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2013

**FINDING 13-1: INTERNAL CONTROLS:
HUMAN RESOURCES (HR) AND PAYROLL**

(continued)

District Response:

1. Currently, the Payroll Supervisor prepares the tax returns. The District is moving forward with hiring a Director of Fiscal Services, which the Payroll Supervisor will report to. This review will now be conducted by the Director of Fiscal Services and/or the Executive Director of Business Services.
2. The District is implementing processes for the separation of duties related to payroll check distribution. The payroll staff will continue with their preparation of payroll, and the Fiscal Services staff will take custody of physical checks for distribution.
3. The Office of Human Resources is implementing processes for the review and approval of initial pay rates for new hires. To ensure accuracy, the Supervisor of Human Resources and/or the Executive Director of Human Resources will review and provide final approval of pay rates for new employees.
4. The Office of Human Resources, Benefits Unit, will ensure that during open enrollment an individual's election for cash in lieu form will be completed.
5. The Human Resources Office will develop a Personnel Action Form (PAF) and communicate with the Payroll Office for newly hired and terminated employees to ensure that benefits are instituted or terminated when a new employee begins or ends their employment with the District.
6. The District currently uses the negotiated contracts for the accrual of vacations and other benefits. The only group that Payroll currently does not have an agreement for is Management. Human Resources will work with the necessary parties to develop the vacation accrual procedures.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2013

FINDING 13-2: SELF-INSURANCE FUND

Original Findings: 2011-1

Finding: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Estimates should be based on the most current information available to management. The estimated liability for open claims incurred but not reported (IBNR) amount was not adjusted during the closing process based on the most current actuarial study available. This resulted in a material understatement of the liability in the Self-Insurance Fund – Workers’ Compensation.

Recommendation: Establish an internal funding contribution using a per payroll dollar rate that will provide sufficient 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 this rate is not sufficient to cover the long-term obligations. The rate structure should be reviewed and updated to provide adequate funding. In addition, the District should increase the contribution to the fund to ensure there is sufficient funds to accrue such a liability without creating a negative ending fund balance.

District Response: The District intends to implement two potential steps in resolving this finding. First, should the State budget improve, as is believed it will, the District should be receiving a significant amount of one time restoration of FTES. If this does indeed occur, the District will offset the difference/understatement of liability in Self-Insurance Fund – Workers’ Compensation. As a second step, and an ongoing process, the District will invest to meet the actuarial requirements set out in the recommendation above. The District will begin to fund as a higher per payroll dollar rate to meet our long term obligations, and will increase the contribution to the fund to ensure that there is sufficient funds to accrue for the liability.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2013

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2013.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS**

June 30, 2013

FINDING 13-3: SECTION 479: TO BE ARRANGED HOURS

Criteria: The Contracted District Audit Manual (CDAM) defines TBA as “Some courses with regularly scheduled hours of instruction have ‘hours to be arranged (TBA)’ as part of the total contact hours for the course. The TBA portion of the course uses an alternate method for regularly scheduling a credit course for purposes of applying either the Weekly or Daily Census Attendance Accounting Procedures pursuant to title 5, sections 58003.1(b) and (c), respectively.” TBA hours are only an option for credit courses that apply the Weekly or Daily Attendance Accounting Procedures and not to those that apply the Alternative Attendance Accounting Procedure pursuant to title 5, section 58003.1(f). The guidance provided by the Chancellor’s Office further requires the following elements related to TBA courses:

- The official course outline of record must include the number of TBA hours. This requirement should also be listed in the published class schedule, whether printed, online, or an addenda to the original schedule.
- Student participation must be carefully tracked to ensure TBA hours are not claimed for apportionment for students who have documented zero hours as of the census date for the course.
- Require all students enrolled in a course with TBA hours to fulfill the hours and other conditions for TBA; ensure all student participation is documented.
- TBA hours may not be claimed for apportionment under the auspices of individual student tutoring.

Condition: When auditing TBA courses we noted the following exceptions:

- TBA hour requirements did not agree between the class schedule and course syllabus/outline for eight courses.
- TBA hour requirements were not clearly identified on the course syllabus/outline for one course.
- TBA hours were not completed as of the census date for four courses.
- Documentation for student participation could not be provided for one course.
- One course outline indicated that tutoring of the subject was an acceptable activity to fulfill the TBA hour requirement.

Context: A statistical sample was derived from the P-2 report. The issue appears to be systemic due to the error rate experienced.

Questioned Costs: Extrapolated FTES in error are 40.33 for weekly census and .96 for daily census; this calculates to approximately \$188,490 based on a per FTES amount of \$4,564.83.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS**

June 30, 2013

FINDING 13-3: SECTION 479: TO BE ARRANGED HOURS

(continued)

Effect: The issues appear to be the result of system limitations. The District has begun use of a new student information system.

Recommendation: Establish procedures to ensure that on a semester basis TBA courses are proper in accordance with the CDAM section 479 and supplementary guidance released by the Chancellor's Office.

District Response: The District's instructional administrators have identified courses that do not meet the TBA requirement definition in the Contracted District Audit Manual (CDAM). The District is removing these courses from future class schedule offerings and/or scheduling the appropriate hours of instruction without a TBA component. The District has updated its schedule of classes to distinguish between true TBA courses and those that are listed as "hours by arrangement" (scheduled with an instructor, such as Independent Study, Field Experience, Work Experience, or Internships).

Courses that do have a TBA component are being updated and submitted through the District's Curriculum & Instruction Committee to ensure that the official course outlines of record document TBA hours and all the required instructional activities. Several instructional divisions have completed this task during the Fall 2013 term. Additionally, the Curriculum & Instruction Committee has updated the official course outline of record template to ensure that faculty complete all of the required TBA information (hours and instructional activities).

Based upon the recommendation of a consultant from the administrative information system Ellucian Banner, courses with legitimate TBA components are now scheduled with two separate Course Record Numbers (CRN); one CRN for the scheduled portion of the course, which retains its attendance accounting code of either Weekly or Daily census, and one CRN for the TBA component that is coded with the attendance code of Positive Attendance. These CRNs are then linked so that students must take both CRNs during registration. This ensures that TBA hours will be appropriately recorded for apportionment as Positive Attendance.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

Original Finding No.	Finding	Recommendation	Current Status
11-1	<p>FINANCIAL CONDITION</p> <p>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.</p> <p>Condition <i>Significant Deficiency</i> – 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.</p> <p>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.</p>	<p>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.</p>	<p>Not implemented. See current year finding number 13-2.</p>

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

Original Finding No.	Finding	Recommendation	Current Status
12-2	<p>REPORTING OF ATTENDANCE (CCFS-320)</p> <p>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.</p> <p>Condition <i>Significant Deficiency</i> – 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.</p> <p>Effect 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.</p>	<p>A systematic review of components by 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 prior classification.</p>	Implemented.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

Original Finding No.	Finding	Recommendation	Current Status
12-3	<p>SYSTEM ACCESS CONTROLS</p> <p>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.</p> <p>Condition <i>Significant Deficiency</i> – 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.</p>	<p>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.</p>	<p>Implemented.</p>

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

Original Finding No.	Finding	Recommendation	Current Status
12-3	<p>SYSTEM ACCESS CONTROLS (continued)</p> <p>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 that former employees could access and alter sensitive information.</p>		
12-4	<p>STUDENT FINANCIAL AID ELIGIBILITY</p> <p>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)</p> <p>Compliance Requirement Eligibility.</p>	<p>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.</p>	<p>Implemented.</p>

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

Original Finding No.	Finding	Recommendation	Current Status
12-4	<p>STUDENT FINANCIAL AID ELIGIBILITY (continued)</p> <p>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.</p> <p>Condition <i>Significant Deficiency</i> – 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.</p> <p>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.</p>		

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

Original Finding No.	Finding	Recommendation	Current Status
12-5	<p>TO BE ARRANGED HOURS (TBA)</p> <p>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.</p> <p>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.</p> <p>Effect The District is not in compliance with the TBA hours requirements.</p>	<p>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.</p>	<p>Not implemented. See current year finding number 13-3.</p>

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2013

Original Finding No.	Finding	Recommendation	Current Status
12-6	<p>EOPS AND CARE – ADVISORY COMMITTEE MEETINGS</p> <p>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.</p> <p>Condition The advisory committees for the CARE and EOPS programs did not hold any meetings during the 2011-2012 academic year.</p> <p>Effect There are no questioned costs associated with this finding.</p>	<p>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.</p>	<p>Implemented.</p>