

PASADENA AREA COMMUNITY COLLEGE DISTRICT

LOS ANGELES COUNTY

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

June 30, 2014

PASADENA AREA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2014

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PASADENA AREA COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2014

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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, 2014, 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, 2014, 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.

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.

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.

Board of Trustees
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 November 17, 2014 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
Glendora, California
November 17, 2014

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2014

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, 2014. This analysis is presented with comparative information from our June 30, 2014 and June 30, 2013, 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 of Cash Flows.

The Pasadena Area Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and No. 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, 2014

FINANCIAL HIGHLIGHTS

- The District ended the year with a General Fund balance of \$21,405,278. The State Chancellor's Office recommends reserve levels of five percent of total General Fund expenditures. The District, has exceeded the recommended five percent reserve requirement by setting aside an amount for economic uncertainty greater than \$7.3 million. With the States' fiscal policy of apportionment deferral, it was expected that the District would be required to fund \$13.2 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 to ensure the orderly conduct of District business. Inter-fund borrowing was needed to cover cash flow requirements during the 2013-2014 fiscal year.
- 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 85.2 percent of total General Fund expenditures were utilized for 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 at 6:00 pm every quarter during the months of January, April, July, and October at Pasadena City College and are open to the public.
- The District provided Federal, State and Local student financial aid to qualifying District students in the amount of approximately \$51.9 million. This represents an increase of \$5.2 million from the 2012-2013 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 2014 and 2013, were 21,127 and 21,098, respectively.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2014

CONDENSED FINANCIAL INFORMATION IS AS FOLLOWS

Statement of Net Position as of June 30,

	(in thousands)	(in thousands)
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and investments	\$ 80,677	\$ 110,606
Receivables	19,600	26,144
Inventories and other assets	1,573	2,077
Total	<u>101,850</u>	<u>138,827</u>
Capital assets, net of depreciation	220,950	214,198
TOTAL ASSETS	<u>322,800</u>	<u>353,025</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred charge on refunding	1,999	-
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 324,799</u>	<u>\$ 353,025</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 11,688	\$ 16,890
Claims liability	4,449	4,449
Other current liabilities	668	624
Tax revenue anticipation notes (TRANS)	-	10,000
Unearned revenue	4,358	5,746
Long-term liabilities - current portion	13,693	13,048
Total	<u>34,856</u>	<u>50,757</u>
Long-term liabilities less current portion	111,885	119,044
TOTAL LIABILITIES	<u>146,741</u>	<u>169,801</u>
NET POSITION		
Invested in capital assets, net of related debt	125,742	127,978
Restricted	24,276	25,843
Unrestricted	28,040	29,403
TOTAL NET POSITION	<u>178,058</u>	<u>183,224</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 324,799</u>	<u>\$ 353,025</u>

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.

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 (SRP), Other Postemployment Benefits Obligation (OPEB), and compensated absences. Long-term obligation decreased by approximately \$6.5 million as the District continued repayment of debt principal.

In 2013-14, the District's long-term credit rating ranged from upper medium grade to high grade with S&P's AA+ and Moody's Aa2.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2014

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>2014</u>	(in thousands) <u>2013</u>
Operating Revenues		
Net tuition and fees	\$ 23,852	\$ 20,593
Grants and contracts, non-capital	50,030	44,183
Auxiliary sales and charges	<u>5,188</u>	<u>4,580</u>
Total operating revenues	<u>79,070</u>	<u>69,356</u>
Operating Expenses		
Salaries and benefits	118,856	107,581
Supplies, materials and other operating expenses and services	35,637	28,766
Financial aid	35,387	30,643
Depreciation	<u>10,402</u>	<u>9,264</u>
Total operating expenses	<u>200,282</u>	<u>176,254</u>
Operating loss	<u>(121,212)</u>	<u>(106,898)</u>
Non-operating revenues		
State apportionments, non-capital	77,646	66,337
Local property taxes	34,025	35,121
State revenues	5,441	4,884
Investment income, net	<u>271</u>	<u>424</u>
Total non-operating revenues	<u>117,383</u>	<u>106,766</u>
Other revenues, (expenses), gains or (losses)		
Local revenues, capital	379	1,014
Interest expense	(2,883)	(3,238)
Other nonoperation revenues and transfers	<u>1,167</u>	<u>974</u>
Total other revenues, (expenses), gains or (losses)	<u>(1,337)</u>	<u>(1,250)</u>
Change in net position	<u>\$ (5,166)</u>	<u>\$ (1,382)</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2014

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 non-operating. As a result, the operating loss of \$121.2 million is balanced by the other funding sources. Total District revenues were less than expenditures by \$5.2 million for the year ended June 30, 2014.

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)	(in thousands)
	<u>2014</u>	<u>2013</u>
Cash Provided By (Used in)		
Operating activities	\$ (113,402)	\$ (94,685)
Non-capital financing activities	114,695	117,753
Capital and related financing activities	(31,678)	(27,056)
Investing activities	<u>456</u>	<u>499</u>
Net decrease in cash and cash equivalents	<u>\$ (29,929)</u>	<u>\$ (3,489)</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2014

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 decrease in cash for 2013-14 is \$29.9 million. This was largely due to the repayment of a prior year Tax Revenue Anticipation Note (TRAN) as well as an expected increase in debt repayment and purchase of capital assets.

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. 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 total revenue. As a result of the passage of Proposition 30 and the improving State economy, Proposition 98 funds increased, 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 will continue Measure P construction activities throughout the 2014-2015 fiscal year. Over the next 24 months, Measure P construction and renovation projects will include classroom conversions, restroom renovations, walkways, and lighting upgrades. The elevator upgrade project is nearing completion and the restroom upgrade project for building 'C' and building 'V' are in progress.

The District's budget continues to be stable and Proposition 30 continues to have a positive impact on the California Community College System and the Pasadena Area Community College District, but presents unknowns in regards to the future budgets and cash flows once the tax increases end. However, it is believed that either the taxes will be extended or the State will backfill Proposition 30 resources through the normal appropriation funding process.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2014

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

Items that are of concern to the District, and are being addressed, are related to escalating costs for Health and Welfare Benefits and the Affordable Care Act (ACA), and funding the District's underfunded Worker's Compensation Self Insured Fund. The District has been meeting with its Benefits Committee on plan design changes to ensure continued coverage while ensuring cost reduction. We have also worked with our third party benefits administrator on potential impacts related to the ACA and any changes that must be addressed prior to the law's impact. In addition, the District is currently negotiating with all Collective Bargaining Units.

Despite the challenges the District is facing, student enrollment continues to be strong. The District opened a new location, Pasadena City College – Rosemead, in Fall 2013 to address current and anticipated future growth. Pasadena City College – Rosemead has allowed the District to expand services to the southern portion of our District, and offers sections that are fully attended by students. We continue to be recognized on the Federal and State level for initiatives such as Career Pathways. In addition, during fiscal year 2013-2014, the District completed a 87,000 square foot Center for the Arts facility which includes art studios, practice rooms, laboratories and performance venues for our students. Further, the economic outlook at the State continues to be positive and reflect steady growth. The District expects repayment of apportionment deferrals and receipt of remaining mandate payments in the near future.

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, 2014

ASSETS

Current Assets:

Cash and cash equivalents	\$	38,882,207
Accounts receivable, net		19,600,007
Due from auxiliary		284,634
Inventories		868,784
Prepaid expenses		419,722

Total Current Assets		60,055,354
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Non-current Assets:

Restricted cash		41,795,152
Land		10,396,408
Construction in progress		3,140,964
Capital assets, net of accumulated depreciation		207,412,460

Total Non-current Assets		262,744,984
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Total Assets		322,800,338
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DEFERRED OUTFLOW OF RESOURCES

Deferred charge on refunding		1,998,686
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TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$	324,799,024
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$	4,568,243
Accrued liabilities		6,116,452
Accrued interest payable		1,003,190
Unearned revenue		4,358,589
Estimated claims liability		4,449,000
Load banking		668,054
Compensated absences - current portion		1,594,028
General obligation bonds payable - current portion		8,759,771
Capital leases - current portion		1,557,208
Supplemental employee retirement plan - current portion		1,781,939

Total Current Liabilities		34,856,474
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Non-current Liabilities:

Compensated absences		1,184,359
General obligation bonds payable		98,237,481
Capital leases		4,267,137
Other postemployment benefits (OPEB)		5,449,988
Supplemental employee retirement plan		2,746,294

Total Non-current Liabilities		111,885,259
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TOTAL LIABILITIES		146,741,733
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NET POSITION

Invested in capital assets, net of related debt		125,742,012
Restricted-expendable for:		
Capital projects		5,268,893
Debt service		16,327,441
Scholarships and loans		624,224
Other special services		2,054,899
Unrestricted		28,039,822

TOTAL NET POSITION		178,057,291
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TOTAL LIABILITIES AND NET POSITION	\$	324,799,024
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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, 2014

OPERATING REVENUES	
Tuition and fees (gross)	\$ 40,552,447
Less: Scholarship discounts and allowances	<u>(16,700,383)</u>
Net tuition and fees	23,852,064
Grants and contracts, non-capital:	
Federal	38,980,277
State	8,436,661
Local	2,613,610
Auxiliary enterprise sales and charges	<u>5,187,574</u>
TOTAL OPERATING REVENUES	<u>79,070,186</u>
OPERATING EXPENSES	
Salaries	94,311,179
Employee benefits	24,544,944
Supplies, materials, and other operating expenses and services	32,471,525
Financial aid	35,387,554
Utilities	3,165,452
Depreciation	<u>10,401,529</u>
TOTAL OPERATING EXPENSES	<u>200,282,183</u>
Operating loss	<u>(121,211,997)</u>
NON-OPERATING REVENUES	
State apportionments, non-capital	77,645,508
Local property taxes	34,024,815
State taxes and other revenues	5,441,214
Investment income - non-capital	<u>270,997</u>
TOTAL NON-OPERATING REVENUES	<u>117,382,534</u>
Loss before other revenues, (expenses), gains or (losses)	<u>(3,829,463)</u>
OTHER REVENUES, (EXPENSES), GAINS OR (LOSSES)	
Local property taxes and revenues, capital	114,087
Investment income, capital	264,502
Other non-operating revenues	1,167,631
Interest expense on capital asset-related debt	<u>(2,883,429)</u>
TOTAL OTHER REVENUES, (EXPENSES), GAINS OR (LOSSES)	<u>(1,337,209)</u>
Decrease in net position	(5,166,672)
NET POSITION, BEGINNING OF YEAR	<u>183,223,963</u>
NET POSITION, END OF YEAR	<u><u>\$ 178,057,291</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, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 22,189,458
Federal grants and contracts	39,443,621
State grants and contracts	8,812,580
Local grants and contracts	1,874,917
Sales	4,994,103
Payments to suppliers	(33,173,795)
Payments to/on-behalf of employees	(122,406,490)
Payments to/on-behalf of students	<u>(35,136,000)</u>
Net cash used by operating activities	<u>(113,401,606)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	85,200,945
Property taxes	34,024,815
Grants and gifts for other than capital purposes	5,468,871
Tax revenue anticipation notes	<u>(10,000,000)</u>
Net cash provided by non-capital financing activities	<u>114,694,631</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net purchase and sale of capital assets	(16,194,751)
Interest on capital investments	52,608
Local revenue from capital purposes	16,979
Principal and interest paid on capital debt	<u>(15,552,856)</u>
Net cash used by capital and related financing activities	<u>(31,678,020)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>455,876</u>
Net cash provided by investing activities	<u>455,876</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(29,929,119)
CASH BALANCE - Beginning of Year	<u>110,606,478</u>
CASH BALANCE - End of Year	<u>\$ 80,677,359</u>
Supplemental Disclosure	
Non cash financing activities:	
Acquisition of fixed assets from capital lease financing	<u>\$ 996,397</u>
Cash paid for interest	<u>\$ 6,151,651</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, 2014

Reconciliation of Operating Loss to
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (121,211,997)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	10,401,529
Changes in assets and liabilities:	
Receivables, net	(1,572,159)
Inventory	16,157
Prepaid expenses	772,175
Accounts payable	(2,471,255)
Accrued liabilities	843,428
Unearned revenue	(1,387,742)
Compensated absences	51,564
Post-employment retiree benefits	1,357,317
Supplemental employee retirement plan	<u>(200,623)</u>
Net cash used by operating activities	<u>\$ (113,401,606)</u>
Breakdown of ending cash balance:	
Cash and cash equivalents	\$ 38,882,207
Restricted cash and cash equivalents	<u>41,795,152</u>
Total	<u>\$ 80,677,359</u>

See the accompanying notes to the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	<u>Associated Student Body Fund</u>	<u>Trust and Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 261,715	\$ 1,182,707
Investments	120,609	1,088,246
Capital assets, net of accumulated depreciation	<u>13,424</u>	<u> </u>
TOTAL ASSETS	<u>395,748</u>	<u>2,270,953</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable		20,359
Due to District		284,634
Amounts held in trust	<u> </u>	<u>1,965,960</u>
TOTAL LIABILITIES	<u>-</u>	<u>2,270,953</u>
NET POSITION		
Unrestricted	<u>395,748</u>	<u>-</u>
TOTAL NET POSITION	<u>\$ 395,748</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, 2014

	Associated Student Body Fund
ADDITIONS	
Other local sources	\$ 217,362
TOTAL ADDITIONS	<u>217,362</u>
DEDUCTIONS	
Supplies, materials, and other operating expenses and services	<u>271,696</u>
TOTAL DEDUCTIONS	<u>271,696</u>
Decrease in net position	(54,334)
NET POSITION, BEGINNING OF YEAR	<u>450,082</u>
NET POSITION, END OF YEAR	<u>\$ 395,748</u>

See the accompanying notes to the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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, 2014, the Foundation expended amounts on-behalf of the District 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. 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, 2014

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 a negative cash balance in the County Treasury amounting to (\$454,948) on June 30, 2014, which represents a prepayment of 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, 2014

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, 2014

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, 2014, 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 acquisition or construction of noncurrent assets or that are 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, 2014

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, 2014

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

C. BASIS OF ACCOUNTING (continued)

9. Compensated Absences and Load Banking (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, 2014

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 2015 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 \$1,032,000 for STRS.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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 \$179,980 for the year ended June 30, 2014. Total interest cost subject to capitalization for the year ended June 30, 2014 was \$3,822,883. Interest capitalized was \$939,454 and interest expensed was \$2,883,429 for the year ended June 30, 2014.

17. Deferred Outflow of Resources

Deferred outflow of resources represent a consumption of net position that applies to a future period(s) thus, will not be recognized as an outflow of resources (expense/expenditures) until then. The District has a deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

18. 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, 2014

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, 2014, \$6,196,693 of the District's bank balance of \$6,950,949 was exposed to credit risk as follows:

Uninsured and uncollateralized	\$ <u>6,196,693</u>
Total	\$ <u>6,196,693</u>

Cash in County

In accordance with 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, 2014, as provided by the County Treasurer, was \$76,943,914, 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, 2014

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, 2014.

Investments at June 30, 2014 are presented below:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Certificates of Deposit	1-5 Years	\$827,373	Nonrated
Stocks		43,216	Nonrated
Mutual Funds		<u>338,266</u>	Nonrated
Total		<u>\$1,208,855</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, 2014

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, 2014 consists of the following:

Federal and State	\$ 16,092,070
Miscellaneous (local receipts, interest)	3,241,369
Student Receivable, net	<u>266,568</u>
	\$ <u>19,600,007</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, 2014

NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2014:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not depreciated:				
Land	\$ 10,396,408	\$	\$	\$ 10,396,408
Work in progress	4,020,789		(4,020,789)	-
Construction in progress	38,124,572	10,260,281	(45,243,889)	3,140,964
Total capital assets not depreciated	<u>52,541,769</u>	<u>10,260,281</u>	<u>(49,264,678)</u>	<u>13,537,372</u>
Capital assets depreciated:				
Buildings and improvements	224,099,968	46,481,052		270,581,020
Site improvements	20,022,797	1,980,698		22,003,495
Equipment	20,435,188	7,696,457	(11,066)	28,120,579
Total of capital assets depreciated	<u>264,557,953</u>	<u>56,158,207</u>	<u>(11,066)</u>	<u>320,705,094</u>
Less accumulated depreciation for:				
Buildings and improvements	(79,814,850)	(7,783,278)		(87,598,128)
Site improvements	(10,207,518)	(997,255)		(11,204,773)
Equipment	(12,879,803)	(1,620,996)	11,066	(14,489,733)
Total accumulated depreciation	<u>(102,902,171)</u>	<u>(10,401,529)</u>	<u>11,066</u>	<u>(113,292,634)</u>
Governmental capital assets, net	<u>\$ 214,197,551</u>	<u>\$ 56,016,959</u>	<u>\$ (49,264,678)</u>	<u>\$ 220,949,832</u>

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 matured on November 29, 2013 and were priced to yield 2% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements were that \$5,000,000 be deposited with the County Treasurer in September 2013, and a final payment of \$5,000,000 and interest be repaid from the funds held with the County Treasurer in October 2013. All deposits were made on a timely basis and, therefore, the liability is defeased and not shown on the financial statements at June 30, 2014.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 7 - LEASES:

A. 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 were 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 at 2.284%. Equipment and software of totaling \$7,873,957 has been purchased under the lease agreement. The principal 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, 2014 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-15	\$ 1,557,208	\$ 107,528	\$ 1,664,736
2015-16	1,595,781	68,955	1,664,736
2016-17	1,635,931	28,805	1,664,736
2017-18	936,865	6,981	943,846
2018-19	98,560	6,354	104,914
Total	<u>\$ 5,824,345</u>	<u>\$ 218,623</u>	<u>\$ 6,042,968</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, 2014

NOTE 7 - LEASES: (continued)

B. 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 approximately \$195,000. 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, and were fully redeemed as of June 30, 2014.

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, 2014

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, 2014, \$1,224,976 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.

On April 2, 2014, the District offered for sale \$16,980,000 in general obligation refunding bonds. The bonds were issued to refund certain outstanding general obligation bonds (Series B) of the District to pay for certain capital improvements. The bonds were issued as current interest bonds.

The proceeds associated with the refunding were deposited in an escrow fund for future repayment.

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, D bonds and 2014 Refunding bonds included a premium of \$1,965,547, \$7,582,736, \$3,582,086, and \$2,608,686, respectively, which are amortized using the straight-line method. Amortization of \$78,622, \$947,842, \$143,283 and \$50,167 was recognized during the 2013-14 year for Series B, C, D bonds, and 2014 Refunding bonds respectively.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 – GENERAL OBLIGATION BONDS: (continued)

The outstanding bonded debt for Pasadena Area Community College District at June 30, 2014 is:

	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding June 30, 2013</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2014</u>
Series B	7/12/2006	4.5 - 5.25%	8/1/2031	\$ 65,000,000	\$ 46,100,000	\$	\$ 19,115,000	\$ 26,985,000
Series C	7/12/2006	3.95 - 4.44%	8/1/2014	22,657,774	9,289,406		4,984,382	4,305,024
Series D	9/30/2009	3.0 - 5.0%	8/1/2026	26,705,000	26,505,000		860,000	25,645,000
Series E	9/30/2009	6.5 - 6.7%	8/1/2034	25,295,000	25,295,000			25,295,000
2014 Refunding	4/2/2014	2.0 - 5.0%	8/1/2026	16,980,000		16,980,000		16,980,000
				<u>\$ 156,637,774</u>	<u>\$ 107,189,406</u>	<u>\$ 16,980,000</u>	<u>\$ 24,959,382</u>	<u>\$ 99,210,024</u>

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2014, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 7,590,024	\$ 6,019,137	\$ 13,609,161
2016	3,265,000	4,803,142	8,068,142
2017	3,395,000	4,662,417	8,057,417
2018	3,460,000	4,504,167	7,964,167
2019	3,635,000	4,326,792	7,961,792
2020-24	20,875,000	18,859,322	39,734,322
2025-29	26,885,000	12,873,702	39,758,702
2030-34	26,460,000	4,766,427	31,226,427
2035	<u>3,645,000</u>	<u>121,269</u>	<u>3,766,269</u>
Total	<u>\$ 99,210,024</u>	<u>\$ 60,936,374</u>	<u>\$ 160,146,398</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – DEFEASED DEBT – 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 are funded in part from the proceeds of the Certificates. Interest payments are funded each year by the General Fund. Interest rates ranged 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 is credited toward the lease payment due and payable. As of June 30, 2014, the COPs are fully redeemed and are not recorded on the financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 10 - LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2014 is shown below:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014	Due in One Year
Compensated Absences	\$ 2,771,165	\$ 7,222	\$ -	\$ 2,778,387	\$ 1,594,028
Capital Lease - Winthrop	6,236,393	996,397	1,408,445	5,824,345	1,557,208
Capital Leases	49,538		49,538	-	-
COPS	625,000		625,000	-	-
G. O. Bonds	107,189,406	16,980,000	24,959,382	99,210,024	7,590,024
Bond Premiim	6,398,456	2,608,686	1,219,914	7,787,228	-
OPEB	4,092,671	1,357,317		5,449,988	-
PARS - Supplemental Plan	4,728,856	1,317,763	1,518,386	4,528,233	1,781,939
	<u>\$ 132,091,485</u>	<u>\$ 23,267,385</u>	<u>\$ 29,780,665</u>	<u>\$ 125,578,205</u>	<u>\$ 12,523,199</u>

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 funded by 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, 2014

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 2013-14 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, 2014

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 for employees hired prior to December 31, 2012 and 6% for employees hired on or after January 1, 2013. 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 2013-14 was 11.442% 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>
2012	\$3,890,391	100%	\$2,223,229	100%
2013	4,042,431	100%	2,461,548	100%
2014	4,222,915	100%	2,823,838	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, 2014

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 District contributions were made in the amount of \$499,473 during the fiscal year. The total amount of covered compensation was \$13,319,280. Total contributions made are 100% of the amount of contributions required for the fiscal year 2013-14. 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 Supplemental Employee Retirement Plans for faculty and management/confidential employees. The accumulated future liability for the District at June 30, 2014 is \$4,528,233, and has been reflected in these financial statements.

In 2011-12, 2012-13, and 2013-14 the Board of Trustees approved the implementation of District Supplemental Employee Retirement Plans for faculty, management, confidential and non-management employees.

A total of 49 faculty, 23 management/confidential, and 56 non-management employees participate in the plan. The total cost to the District is approximately \$8.9 million. The District will pay benefits in future years, through 2018-19, totaling approximately \$4.6 million.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 2014, the District and member contributions to the plan totaled \$1,247,195.

Annual OPEB Cost and Net OPEB Obligation

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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	\$ 2,486,953
Interest on net OPEB obligation	194,402
Adjustment to annual required contribution	<u>(76,843)</u>
Annual OPEB cost (expense)	2,604,512
Contributions made	<u>(1,247,195)</u>
Change in net OPEB obligation	1,357,317
Net OPEB obligation - beginning of year	<u>4,092,671</u>
Net OPEB obligation - end of year	<u><u>\$ 5,449,988</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 2014 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>
6/30/2012	\$ 2,152,275	48.0%	\$ 3,329,078
6/30/2013	2,122,860	64.0%	4,092,671
6/30/2014	2,604,512	47.9%	5,449,988

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Funding Status and Funding Progress

As of April 11, 2014, 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 \$20,286,529. The covered payroll (annual payroll of active employees covered by the plan) was \$59,070,408, and the ratio of the UAAL to the covered payroll was 34.34%. 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, 2014, the fund's designated balance was \$15,547,270.

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, 2014

NOTE 13 - POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Actuarial Methods and Assumptions (continued)

In the April 11, 2014 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 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 2.75 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, 2014

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 6/30/2014 (Unaudited)	SELF 6/30/2014 (Audited)	SAWCX II 6/30/2014 (Unaudited)
Total assets	\$ 54,045,044	\$ 162,746,000	\$ 16,894,958
Total liabilities	<u>23,536,002</u>	<u>118,853,000</u>	<u>15,667,412</u>
Retained earnings	<u>\$ 30,509,042</u>	<u>\$ 43,893,000</u>	<u>\$ 1,227,546</u>
Total revenues	\$ 18,715,567	\$ 11,812,000	\$ 252,316
Total expenditures (credits)	<u>19,449,490</u>	<u>4,199,000</u>	<u>(183,514)</u>
Net increase/(decrease)	<u>\$ (733,923)</u>	<u>\$ 7,613,000</u>	<u>\$ 435,830</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014, 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	\$ 854,774	\$ (854,774)	\$ 225,000
Workers' Compensation	<u>4,224,000</u>	<u>3,902,708</u>	<u>(3,902,708)</u>	<u>4,224,000</u>
	<u>\$ 4,449,000</u>	<u>\$ 4,757,482</u>	<u>\$ (4,757,482)</u>	<u>\$ 4,449,000</u>

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 16 – FUNCTIONAL EXPENSE:

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional	\$ 54,486,085	\$ 10,544,292	\$ 1,150,244	\$	\$	\$ 66,180,621
Academic Support	8,513,189	2,290,974	1,040,453			11,844,616
Student Services	12,235,963	3,087,816	2,192,521			17,516,300
Operation & Maintenance of Plant	4,908,677	1,960,316	2,140,255			9,009,248
Institutional Support	9,991,205	5,621,287	6,820,755			22,433,247
Community Services and Economic Development	474,944	150,732	154,843			780,519
Ancillary Services and Auxiliary Operations	3,514,149	879,089	2,975,812			7,369,050
Physical Property & Related Acquisition	186,967	10,438	11,850,401			12,047,806
Long-Term Debt & Other Financing			7,311,693			7,311,693
Student Aid				35,387,554		35,387,554
Depreciation Expense					10,401,529	10,401,529
Total	<u>\$ 94,311,179</u>	<u>\$ 24,544,944</u>	<u>\$ 35,636,977</u>	<u>\$ 35,387,554</u>	<u>\$ 10,401,529</u>	<u>\$ 200,282,183</u>

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.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 17 - COMMITMENTS AND CONTINGENCIES: (continued)

C. Purchase Commitments

As of June 30, 2014, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$6,472,000. Projects will be funded through bond proceeds, state funds and general funds.

**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, 2014, 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. 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, 2014

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

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. This statement addresses an issue regarding application of the transition provision of Statement No. 68. This statement is effective for fiscal year 2014-15 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS

For the Fiscal Year Ended June 30, 2014

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
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	28.63%
4/11/2014		20,286,529	20,286,529	0%	59,070,408	34.34%

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, 2014

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, 2014

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>
Anthony R. Fellow, PhD	President	December 2017
Berlinda Brown	Vice President	December 2017
Linda S. Wah	Clerk	December 2017
Ross Selvidge, PhD	Member	December 2017
Jeanette Mann, PhD	Member	December 2015
William E. Thomson, Jr.	Member	December 2015
John H. Martin	Member	December 2015
Marshall Lewis	Student Trustee	June 2015

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, DPA	Assistant Superintendent/Senior Vice President, Business and College Services

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

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:			
Pell	84.063	N/A	\$ 30,977,999
Supplemental Educational Opportunity Grant (SEOG)	84.007	N/A	398,974
Federal Work Study Program	84.033	N/A	57,778
Federal Work Study Program/ACA	84.033	N/A	102,029
Federal Family Education Loans (Direct Loans)	84.268	N/A	<u>1,649,270</u>
Total Student Financial Aid Cluster:			<u>33,186,050</u>
Passed through from the California Department of Education:			
TRIO Cluster:			
Upward Bound	84.047A	(1)	280,568
Upward Bound Math and Science	84.047M	(1)	234,229
Student Support Services	84.042A	(1)	183,566
Talent Search	84.044A	(1)	211,017
Upward Bound - Rosemead	84.044A	(1)	249,046
Upward Bound Math and Science - El Monte	84.044A	(1)	<u>242,055</u>
Total TRIO Cluster:			<u>1,400,481</u>
Department of Agriculture:			
Passed through the California Department of Education			
Child & Adult Care Food Program	10.558A	3278-1A	45,227
National Science Foundation:			
Direct:			
Providing More to Increase Stem Majors	47.076	N/A	13,053
Department of Education:			
Direct:			
CCAMPIS - Child Development Program	84.335A	N/A	5,306
XL for Life: Transforming Developmental Education at PCC to Improve Hispanic Student Success	84.031S	N/A	606,811
Developing an Accessible Intersegmental STEM pathway in Environmental Sciences for Underserved Hispanic Students	84.031C	N/A	1,365,085
Design Technology Pathway	84.031S	N/A	544,444
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	84.002A	03055	240,487
Passed through from the California Community College Chancellor's Office:			
Career and Technical Education (CTE):			
Perkins, Title I, Part C	84.048	03578	499,150
Perkins, Title I, Part C, Transitions	84.048A	(1)	42,333

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, 2014

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
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)	80,870
Passed through from the County of Los Angeles Department of Social Services:			
Temporary Assistance for Needy Families (TANF)	93.558	CCS09010	<u>73,000</u>
Total Temporary Assistance for Needy Families (TANF) Cluster			<u>153,870</u>
Passed through from the California Community College Chancellor's Office:			
Personal and Home Care Aide State Training Program	93.512	F11-0085	49,157
Foster Care	93.658	(1)	45,281
Passed through from the California Department of Education:			
Child Care and Development Block Grant	93.575	000324	40,668
Child Care and Development Block Grant - Mandatory Match	93.596	000321	85,256
Passed through the Community College Foundation:			
Youth Empowerment Strategies for Success - Los Angeles (YESS-LA)	93.674	(1)	33,781
Department of Commerce			
Passed through the Community College Foundation:			
Broadband Technology Opportunities Program (BTOP)	11.557	(1)	148
Small Business Administration:			
Passed through from Long Beach Community College District:			
Small Business Development Center (SBDC)	59.037	N/A	<u>86,094</u>
Total Federal Expenditures:			<u>\$ 38,442,682</u>
Reconciliation to Federal Revenue:			
Total federal program expenditures			\$ 38,442,682
Revenues in excess of expenditures related to federal entitlement program:			
Build America Bonds			<u>537,595</u>
Total Federal Revenue			<u>\$ 38,980,277</u>
Student Financial Aid Loan Programs:			
Pasadena Area Community College District had the following loan balance outstanding as of 6/30/14:			
Perkins Program	84.038		<u>\$ 2,386</u>

Note: (1) Pass-through entity identifying number not readily available.

N/A Pass-through entity identifying number not applicable

See accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
For the Fiscal Year Ended June 30, 2014

Program Name	Program Revenues			Total Program Expenditures
	Cash Received	Accounts Receivable	Unearned Revenue	
State Categorical Aid Programs:				
Child Development Program	\$ 6,569	\$	\$ 6,569	\$
Child Development Program	111,192			111,192
Child Development Program	127,551	5,011		132,562
Child Development Program	2,069	247		2,316
Cooperative Agencies Resources For Education (CARE)	74,971		24,720	50,251
Extended Opportunity Program and Services (EOP&S)	847,321		195,573	651,748
Extended Opportunity Program and Services (EOP&S)	92,285		53,266	39,019
Extended Opportunity Program and Services (EOP&S) prior year	33,340			33,340
Disabled Students Program and Services (DSPS)	745,631	234,536		980,167
Matriculation - Non Credit	178,232			178,232
Matriculation - Credit	1,078,447		209,746	868,701
Matriculation - Administration	500,000		408,588	91,412
Matriculation - Administration (Prior Year)	253,316			253,316
Instructional Equipment	311,318		290,362	20,956
Associate Degree Nursing	113,820	15,791		129,611
Economic Development - Applied Biological Technology	20,171	4,952		25,123
CTE 140 Community Collaborative Projects	551,851		206,566	345,285
Basic Skills	239,842		15,670	224,172
Student Financial Aid Administration	249,507			249,507
SFAA Augmentation	515,426			515,426
Calworks	345,819		26,202	319,617
Student Services Automated Reporting	103,415		103,415	-
Staff Diversity - AB1725	19,661			19,661
Faculty/Staff Professional Development	333		333	-
MESA	30,300	31,779		62,079
Foster Care Education Program	37,096	37,096		74,192
Bridges to Stem Cell Research	826,128		364,899	461,229
AB 86	131,862		131,862	-
CCC Student Mental Health Program	47,432	21,526		68,958
Cal Grant "B"	1,917,920	737	8,009	1,910,648
Cal Grant "C"	22,513			22,513
TOTALS	\$ 9,535,338	\$ 351,675	\$ 2,045,780	\$ 7,841,233

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
 RECAL (ACTUAL) ATTENDANCE
 For the Fiscal Year Ended June 30, 2014

	Recal - Factored FTES		
	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2013 only)			
1. Noncredit ¹	134.65	0.12	134.77
2. Credit	294.66	0.64	295.30
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
1. Noncredit ¹	93.97	(2.68)	91.29
2. Credit	1,785.75	(1.33)	1,784.42
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	15,094.36	(84.11)	15,010.25
(b) Daily Census Contact Hours	763.09		763.09
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	826.36	0.17	826.53
(b) Credit	679.36		679.36
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	1,211.33	(29.34)	1,181.99
(b) Daily Census Procedure Courses	359.78		359.78
(c) Noncredit Independent Study/Distance Education Courses	-		-
	-		-
D. Total FTES	<u>21,243.31</u>	<u>(116.53)</u>	<u>21,126.78</u>
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	-		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit ¹	835.46		
(b) Credit	674.46		
CCFS 320 Addendum			
CDCP Noncredit FTES	583.62		
Centers FTES			
Noncredit	1,701.20		
Credit	-		

¹ Including Career Development and College Preparation (CDCP) FTES

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

	<u>Self-Insurance Fund</u>
June 30, 2014 Annual Financial and Budget Report (Form CCFS-311) Fund Balance	\$18,628,448
Adjustments and Reclassifications:	
Understatement of Claims Liability	<u>(2,584,653)</u>
June 30, 2014 Audited Financial Statements Fund Balance	<u>\$16,043,795</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, 2014

	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	\$ 25,111,040	\$	\$ 25,111,040	\$ 25,611,287	\$	\$ 25,611,287
Other	1300	24,571,967		24,571,967	24,572,067		24,572,067
Total Instructional Salaries		49,683,007		49,683,007	50,183,354		50,183,354
Non-Instructional Salaries							
Contract or Regular	1200			-	9,180,920		9,180,920
Other	1400			-	704,522		704,522
Total Non-Instructional Salaries		-		-	9,885,442		9,885,442
Total Academic Salaries		49,683,007	-	49,683,007	60,068,796	-	60,068,796
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100			-	19,052,599		19,052,599
Other	2300			-	4,356,726		4,356,726
Total Non-Instructional Salaries		-	-	-	23,409,325	-	23,409,325
Instructional Aides							
Regular Status	2200			-			-
Other	2400	91,484		91,484	91,484		91,484
Total Instructional Aides		91,484		91,484	91,484		91,484
Total Classified Salaries		91,484	-	91,484	23,500,809	-	23,500,809
Employee Benefits	3000	10,889,659		10,889,659	25,084,034		25,084,034
Supplies and Materials	4000			-	939,480		939,480
Other Operating Expenses	5000	52,060		52,060	13,471,840		13,471,840
Equipment Replacement	6420			-			-
Total Expenditures Prior to Exclusions		60,716,210	-	60,716,210	123,064,959	-	123,064,959

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, 2014

	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	727,999		727,999	727,999		727,999
Student Health Services Above Amount Collected	6441			-			-
Student Transportation	6491			-	52,057		52,057
Non-instructional Staff-Retirees' Benefits and Retirement Incentives	6740			-	1,987,051		1,987,051
Objects to Exclude							
Rents and Leases	5060			-	528,202		528,202
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			-	2,459		2,459
Noninstructional, Supplies & Materials	4400			-			-
Total Supplies and Materials							
Other Operating Expenses and Services	5000			-	2,948,592		2,948,592
Capital Outlay	6000			-			-
Library Books	6300			-			-
Equipment	6400			-			-
Equipment - Additional	6410			-			-
Equipment - Replacement	6420			-			-
Total Equipment							
Total Capital Outlay							
Other Outgo	7000			-			-
Total Exclusions		727,999	-	727,999	6,246,360	-	6,246,360
Total for ECS 84362, 50% Law		\$ 59,988,211	-	\$ 59,988,211	\$116,818,599	-	\$116,818,599
Percent of CEE (Instructional Salary Cost / Total CEE)		51.35%	0%	51.35%	100%	0%	100%
50% of Current Expense of Education					\$ 58,409,300	-	\$ 58,409,300

See the accompanying notes to the supplementary information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2014

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, 2014 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. The Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared on the modified accrual basis of accounting.

B. Schedule of Workload Measures for State General Apportionment Recal (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 Financial 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, 2014 and have issued our report thereon dated November 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 identified certain deficiencies in internal control that we consider to be significant deficiencies. These are reported to management in a separate letter dated November 17, 2014.

**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 Standard*.

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, California
November 17, 2014

**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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings 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.

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.

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

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 on this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questions costs as items 2014-001 and 2014-002, that we consider to be significant deficiencies.

The District's response to the internal control over compliance 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.

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
Glendora, California
November 17, 2014

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 *2013-14 Contracted District Audit Manual*, published by the California Community Colleges Chancellor's Office for the year ended June 30, 2014. 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 *2013-14 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 (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 439	Proposition 39 Clean Energy 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *2013-14 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 items 2014-003, 2014-004, 2014-005, and 2014-006. Our opinion on each state program is not modified with respect to this matter.

The District's response to the noncompliance findings 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 *2013-14 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, California

November 17, 2014

FINDINGS AND RECOMMENDATIONS

PASADENA AREA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS

June 30, 2014

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? X Yes 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) X Yes No

Identification of major programs tested

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063, and 84.268 84.031S	Student Financial Aid Cluster XL for Life: Transforming Developmental Education at PCC to Improve Hispanic Student Success
84.042A, 84.044A, 84.047A, 84.047M	TRIO Cluster

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

Auditee qualified as low-risk auditee? X Yes No

Schedule of Findings and Questioned Costs related to financial statements have been reported to management in a separate letter dated November 17, 2014.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

FINDING 2014-001: RETURN OF TITLE IV

CFDA Title and Number: Student Financial Aid Cluster (84.007, 84.033, 84.063, and 84.268)

Federal Award Number and Year: P063P140040, 2013-14

Name of Federal Agency: Department of Education

Name of the Pass-through Agency: Not Applicable

Criteria: According to 34 CFR sections 668.22(a)(1) through (a)(5), when a recipient of Title IV grant or loan assistance withdraws or fail to meet academic progress during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. In addition, the institution must return the lesser of the total amount of unearned Title IV assistance to be returned, or an amount equal to the total institutional charges incurred by the student for the payment period (34 CFR section 668.22(g)).

Condition: During the testing of the requirements for Return to Title IV, the following exceptions were noted:

Fall Semester 2013

- Six of seven students selected in the initial sample for Fall Semester 2013, the Return of Title IV calculation was not performed.
- The District subsequently provided documentation for 45 students that withdrew in the months of August, September and October 2013. However, the calculation for Return to Title IV funds was not completed until January 23, 2014 through January 28, 2014.
- Based on further research, it was determined that an additional 193 students who either withdrew or did not meet academic progress. Timely calculations were not performed to determine the amount of Title IV funds to return, if any, owed by the student and by the District. Students were not notified and no Title IV funds were returned to the Department of Education.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

FINDING 2014-001: RETURN OF TITLE IV

(continued)

Spring Semester 2014

- Return of Title IV charges were not posted accurately to student accounts. This was noted for one of two students where the calculation had been performed.
- Partial calculations were performed for students who withdrew in Spring semester 2014 under the requirement of Return to Title IV using the District's Student Services software; however, students were not notified as required.
- Based on further research, it was determined that an additional 151 students either withdrew or did not meet academic progress. Timely calculations were not performed to determine the amount of Title IV funds to return, if any, owed by the student and by the District. Students were not notified and no Title IV funds were returned to the Department of Education.

Cause: The District implemented a new Student Accounting Software during 2013-14. Procedures were not established to monitor Return to Title IV requirements for the Fall Semester 2013. Procedures were improved during the Spring Semester 2014, but a review process was not established to ensure all compliance requirements were being followed.

Recommendation: Implement procedures, either utilizing the system or other means, to comply with Return of Title IV requirements. Perform calculations on all eligible students to allow timely and accurate communication so that Title IV funds are returned to the granting agency.

Questioned Costs: Records were reconstructed for both Fall 2013 and Spring 2014 Semesters to the best of management's ability. These reconstructed records supported questioned costs of \$33,502 for Fall 2013 and \$27,998 for Spring 2014.

Effect: Not in compliance with 34 CFR sections 668.22(a)(1) through (a)(5) and 34 CFR Section 668.22(g).

District Response: The District is revising current policies/procedures so as to ensure timely and accurate calculation of Return to Title IV.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

FINDING 2014-002: TIME AND EFFORT REPORT

CFDA Title and Number: XL for Life: Transforming Developmental Education at PCC to Improve Hispanic Student Success (84.031S), TRIO Cluster (84.047A, 84.047M, 84.042A, and 84.044A)

Federal Award Number and Year: XL for Life – P0315100008 and 4
TRIO Cluster – P042A100931-13 and 4
P044A110921-13 and 3
P047A121353-13 and 2
P047A121270-13 and 2
P047M120274-13 and 2
P047M120273-13 and 2

Name of Federal Agency: Department of Education

Name of the Pass-through Agency: Not Applicable

Criteria: As required by 2 C.F.R. Part 225, monthly time and effort reports should be prepared for Multiple Cost Objective and semi-annual Time and Effort Reports should be prepared for Single Cost Objective to support wages funded by federally funded programs. Reports should be prepared timely and signed by the individual and their reporting supervisor.

Condition: It was noted through testing, time and efforts reports were not prepared timely for the programs tested.

Questioned Costs: Not quantified, satisfactory evidence was obtained to verify employee's time and effort towards the program.

Effect: Not in compliance with 2 C.F.R. Part 225.

Recommendation: Implement procedures to ensure time and effort reports are prepared on a timely basis.

District Response: The District is developing and will implement policies/procedures to accommodate Time and Effort reporting for federally funded Grants.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

FINDING 2014-003: SECTION 424: GENERAL APPORTIONMENT SYSTEM

Criteria: Per CCR Title 5, Article 3, Section 58020 - Tabulations, Census Day Procedure Tabulations, states that “(a) For each course section census week, as defined in Section 58003.1(b) of the Education Code, or each course section census day, as defined in Section 58003.1(c) of the Education Code, a separate tabulation is required for each of the course categories using a census day procedure. Each tabulation shall provide a detailed listing for each course section...[(3)] Number of class hours each daily census course section is scheduled to meet on the census day or number of class hours each weekly census course is scheduled to meet during the census week.”

Condition: The District’s detail report does not contain the place holder or information for the number of class hours each daily census course section is scheduled or number of class hours each weekly census course is schedule to meet.

Context: This is a systemic issue as all reports for the weekly and daily census type were affected.

Questioned Costs: No dollar value was quantified as the issue is a report format and did not impact the number of full-time equivalent students reported.

Effect: Not in compliance with CCR Title 5 regulations as detailed above.

Recommendation: Work with the consultants or internal information technology staff to revise the report format to include the required information.

District Response: The District will work with consultants and/or internal information technology staff to revise the report format to include the required information.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

FINDING 2014-004: SECTION 479: TO BE ARRANGED HOURS

Original Finding: 2013-3

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 CCR 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 CCR 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 three courses.
- TBA hour requirements were not clearly identified on the course syllabus/outline for two courses.

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

FINDING 2014-004: SECTION 479: TO BE ARRANGED HOURS
(continued)

Original Finding: 2013-3

Questioned Costs: All FTES reported are considered to be in error of 65.87 for weekly census; this calculates to approximately \$300,685 based on a per FTES amount of \$4,564.83.

The FTES identified are reflected as an audit adjustment in the supplementary section of this report.

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 will develop and implement policies/procedures to ensure TBA courses are properly accounted for and reported.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

FINDING 2014-005: SECTION 424: GENERAL APPORTIONMENT SYSTEMS

Criteria:

1. According to the Student Attendance Accounting Manual, Chapter 3: “The units of actual FTES generated in other than weekly census procedure course during the academic year, exclusive of intersessions, are adjusted by a computed flexible time adjustment (F) factor so as to provide the same level of FTES as would have been generated had the flexible time not been permitted and regularly scheduled instruction had taken place.”
2. According to CCR, Title 4, Sections 58030 Support Documentation, the District is required to maintain support for the number of FTES claimed.

Condition:

1. The District’s detail report indicated that some students in certain positive attendance courses reported more contact hours than the total contact hours for the course.
2. The District was unable to substantiate the total number of FTES that increased between Period Annual and the Recal.

Context:

1. This is potentially a systemic issue; however, it occurred randomly and no consistent pattern was determined. This appears to be the result of the recent implementation of a new student attendance accounting system.
2. No documentation was maintained for changes made. Management relied on data from system.

Questioned Costs:

1. FTES in error are 7.80 for positive attendance; this calculates to approximately \$35,604 based on a per FTES amount of \$4,564.83.
2. FTES not supported are 42.86; this calculates to approximately \$195,649 based on a per FTES amount or \$4,564.83.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

FINDING 2014-005: SECTION 424: GENERAL APPORTIONMENT SYSTEMS
(continued)

Effect: Not in compliance with the Student Attendance Accounting Manual and CCR Title 5 regulations as detailed above.

Recommendation: Work with the software company consultants or other district's using the Ellucian software to determine if internal controls can be set up in the system to restrict entering more contact hours than the total for the course. Implement the review of detail by District personnel to ensure that instructors are not entering more contact hours than allowed. If additional hours are to be inputted, then the (F) factor should be applied and an audit trail be maintained as evidence. Maintain documentation for all changes in FTES from Period Annual to Recal.

District Response: The District will work with consultants and/or internal information technology staff to ensure positive attendance courses are properly accounted for and reported. The District will develop and implement policies/procedures to review accuracy of data.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

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

June 30, 2014

**FINDING 2014-006: SECTION 474: EXTENDED OPPORTUNITY PROGRAM AND
SERVICES (EOPS) & COOPERATIVE AGENCIES RESOURCES FOR EDUCATION
(CARE)**

Criteria: CCR Title 5, Article 1, Section 56208 – Advisory Committee states “the EOPS Advisory Committee shall meet at least once during each academic year.”

Education Code Section 79154 states “the Board of Governors of the California Community Colleges, in conjunction with the State Department of Social Services and the State Employment Development Department, shall adopt guidelines for the cooperative agencies resources for education program. The board of governors shall be responsible for the administration of the funds for the program.” The 2013-14 Contracted District Audit Manual Section 474.04 states that the CARE Advisory Committee must meet twice during each academic year.

Condition: The District did not conduct at least one EOPS advisory meeting and at least two CARE Advisory meetings during the 2013-14 academic year.

Context: This is a systemic issue as no meetings were conducted.

Questioned Costs: No dollar amount was quantified as the issue related to committee meetings and does not impact the number of full-time equivalent students reported, eligibility of students served or allowable expenditures.

Effect: Not in compliance with CCR Title 5 regulations, Education Code, and Contracted District Audit manual as detailed above.

Recommendation: Conduct at least one EOPS Advisory Committee meeting and at least two CARE Advisory Committee meetings for each academic year.

District Response: The District will implement policies and procedures to ensure requirements of EOPS and CARE programs are met.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2014

Finding No.	Finding	Recommendation	Current Status
2013-1	<p>INTERNAL CONTROLS: HUMAN RESOURCES (HR) AND PAYROLL</p> <p>During our review of internal control over Human Resources and Payroll processing, we noted the following deficiencies:</p> <ul style="list-style-type: none"> - 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. 	<p>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.</p>	<p>Partially implemented. See current year finding in the separate management letter.</p>

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2014

Finding No.	Finding	Recommendation	Current Status
2013-2	<p>SELF-INSURANCE FUND</p> <p>Original Finding: 2011-1</p> <p>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.</p>	<p>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.</p>	<p>Not implemented. See current year finding in the separate management letter.</p>

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2014

Finding No.	Finding	Recommendation	Current Status
2013-3	<p><u>SECTION 479: TO BE ARRANGED HOURS</u></p> <p>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 CCR 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 CCR Title 5, section 58003.1(f). The guidance provided by the Chancellor’s Office further requires the following elements related to TBA courses:</p> <ul style="list-style-type: none"> • 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. 	<p>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).</p> <p>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</p>	<p>Not implemented. See current year finding number 2014-004.</p>

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2014

Finding No.	Finding	Recommendation	Current Status
2013-3	<p><u>SECTION 479: TO BE ARRANGED HOURS</u> (continued)</p> <ul style="list-style-type: none"> • 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. <p>Condition: When auditing TBA courses we noted the following exceptions:</p> <ul style="list-style-type: none"> • 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. 	<p>ensure that faculty complete all of the required TBA information (hours and instructional activities).</p> <p>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.</p>	

PASADENA AREA COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2014

<u>Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
2013-3	<p><u>SECTION 479: TO BE ARRANGED HOURS</u> (continued)</p> <ul style="list-style-type: none">• One course outline indicated that tutoring of the subject was an acceptable activity to fulfill the TBA hour requirement. <p>Context: A statistical sample was derived from the P-2 report. The issue appears to be systemic due to the error rate experienced.</p> <p>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.</p>		