

**PASADENA AREA
COMMUNITY COLLEGE DISTRICT**

**MEASURE P
GENERAL OBLIGATION BONDS
ELECTION 2002**

**FINANCIAL AUDIT
WITH
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2012

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
MEASURE P GENERAL OBLIGATION BOND**

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JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

Governing Board and
Citizens' Oversight Committee
Pasadena Area Community College District
Pasadena, California

We have audited the accompanying financial statements of the Measure P General Obligation Bond (the Bond Fund) of Pasadena Area Community College District (the District) as of June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 of the Notes to Financial Statements, the financial statements present only the Bond Fund and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, as discussed in Note 2 of the Notes to Financial Statements, the Bond Fund's financial statements are prepared on the modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position - modified accrual basis of the Measure P General Obligation Bond of Pasadena Area Community College District as of June 30, 2012, and the results of its operations - modified accrual basis for the year then ended, in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, on our consideration of the District's internal control over financial reporting for the Measure P General Obligation Bond and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Rancho Cucamonga, California
December 6, 2012

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
MEASURE P GENERAL OBLIGATION BOND**

**BALANCE SHEET - MODIFIED ACCRUAL BASIS
JUNE 30, 2012**

ASSETS

Investments	\$ 54,234,741
Accounts receivable	<u>107,079</u>
Total Assets	<u><u>\$ 54,341,820</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable and accrued liabilities	<u>\$ 1,437,386</u>
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FUND BALANCE

Unreserved	
Restricted	<u>52,904,434</u>
Total Liabilities and Fund Balance	<u><u>\$ 54,341,820</u></u>

See the accompanying notes to financial statements.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
MEASURE P GENERAL OBLIGATION BOND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

REVENUES

Local revenues \$ 568,850

EXPENDITURES

Supplies 1,548
Services and operating expenditures 66,810
Capital outlay 12,449,729
Total Expenditures 12,518,087

EXCESS OF EXPENDITURES OVER REVENUES (11,949,237)

FUND BALANCE, BEGINNING OF YEAR 64,853,671

FUND BALANCE, END OF YEAR \$ 52,904,434

See the accompanying notes to financial statements.

PASADENA AREA COMMUNITY COLLEGE DISTRICT MEASURE P GENERAL OBLIGATION BOND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Measure P General Obligation Bond Fund (the Bond Fund) is a governmental fund of Pasadena Area Community College District (the District). This fund is used to account for the activity of the Proposition 39 Measure P General Obligation Bond approved by the voters of the District on March 5, 2002. These financial statements present only the Bond Fund and do not purport to present fairly the financial position of the District and the changes in its financial position in conformity with accounting standards generally accepted in the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Financial Statement Presentation

The financial statements of the Bond Fund have been prepared on the modified accrual basis of accounting. The statement of activities is a statement of financial activities related to the current reporting period. Using this method, revenues are recognized when they are both measurable and available, and expenses are recognized when goods are received or services are rendered.

Fund Accounting

The operations of the Bond Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the Bond Fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Measure P General Obligation Bond Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. These fund financial statements do not include the adoption of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as the District was not required to adopt GASB Statement No. 54 under the reporting requirements of GASB Statement No. 35.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
MEASURE P GENERAL OBLIGATION BOND**

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

NOTE 3 - INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury

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

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

As provided by the Government Code, the cash balances of substantially all funds of the District are pooled and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is deposited to the participating funds based upon the funds' average daily deposit balance during the allocation period.

Summary of Investments

Investments as of June 30, 2012, consist of the following:

	Reported Value
County Pool - Los Angeles	<u>\$ 54,234,741</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
MEASURE P GENERAL OBLIGATION BOND**

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

Specific Identification

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
County Pool - Los Angeles	<u>\$ 54,400,981</u>	<u>617</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County Pool is not required to be rated, nor has it been rated as of June 30, 2012.

NOTE 4 - ACCOUNTS RECEIVABLE

The accounts receivable at June 30, 2012, in the amount of \$107,079 represents interest earnings that have yet to be received. All amounts have been determined by management to be fully collectable.

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable at June 30, 2012, consist of the following:

Vendor payables	<u>\$ 1,437,386</u>
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NOTE 6 - FUND BALANCE

The fund balance is composed of the following element:

Unreserved	
Restricted	<u>\$ 52,904,434</u>

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
MEASURE P GENERAL OBLIGATION BOND**

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

NOTE 7 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, the Measure P General Obligation Bond had the following commitments as defined by the bond documents:

<u>CAPITAL PROJECTS</u>	<u>Remaining Construction Commitments</u>	<u>Expected Dates of Completion</u>
Arts Building	\$ 19,872,448	2012
C Building Access Compliance	17,437	On Going
Campus Center	7,659	On Going
Classroom Conversions	173,041	On Going
Elevator Upgrades	52,769	On Going
Restroom Upgrades	21,018	On Going
Construction Management	600,000	On Going
	<u>\$ 20,744,372</u>	

These projects are anticipated to be paid from current issuances of the Measure P General Obligation Bond Fund.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Measure P General Obligation Bond Fund at June 30, 2012.



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

Governing Board and
Citizens' Oversight Committee
Pasadena Area Community College District
Pasadena, California

We have audited the accompanying financial statements for the Measure P General Obligation Bond of Pasadena Area Community College District (the District) for the year ended June 30, 2012, and have issued our report thereon dated December 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As discussed in Note 1, the financial statements present only the Bond Fund specific to Measure P and are not intended to present fairly the financial position and results of operations of the District in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of the District's Measure P General Obligation Bond Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pasadena Area Community College District's Measure P General Obligation Bond Fund internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pasadena Area Community College District's internal control over the Measure P General Obligation Bond's financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pasadena Area Community College District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pasadena Area Community College District's Measure P General Obligation Bond's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, District Management, and the Independent Citizens' Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Vaurvik, Irine, Day & Co. LLP

Rancho Cucamonga, California
December 6, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
MEASURE P GENERAL OBLIGATION BOND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2012**

None reported.

**PASADENA AREA
COMMUNITY COLLEGE DISTRICT**

**MEASURE P
GENERAL OBLIGATION BONDS
ELECTION 2002**

PERFORMANCE AUDIT

JUNE 30, 2012

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
MEASURE P GENERAL OBLIGATION BONDS
ELECTION 2002**

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JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board and
Citizens' Oversight Committee
Pasadena Area Community College District
Pasadena, California

We were engaged to conduct a performance audit of Pasadena Area Community College District (the District) Measure P General Obligation Bond Fund for the year ended June 30, 2012.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Measure P General Obligation Bond Fund only for the specific projects approved by the voters in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Rancho Cucamonga, California
December 6, 2012

PASADENA AREA COMMUNITY COLLEGE DISTRICT GENERAL OBLIGATION BOND FUND (MEASURE P)

JUNE 30, 2012

AUTHORITY FOR ISSUANCE

The Measure P Bond Funds were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California *Education Code*, and other applicable provisions of law. The Bonds were authorized to be issued by a resolution adopted by the Board of Supervisors of the County on May 20, 2003, (the County Resolution), pursuant to a request of the District made by a resolution adopted by the Board of Education of the District on April 23, 2003, (the District Resolution).

The District received authorization at an election held on March 5, 2002, to issue bonds of the District in an aggregate principal amount not to exceed \$150,000,000 to finance specific construction, acquisition, furnishing, and equipping of District facilities and to pay certain costs of issuance associated therewith. The projects were approved by eligible voters within the District. The measure required approval by at least 55 percent of the votes cast by eligible voters within the District. The Measure P Bond Funds represent the authorized bond issuances of Series 2002A, 2006B and C, and 2009D and E.

PURPOSE OF ISSUANCE

Pursuant to the 2002 Authorization, the proceeds of the Bonds will be used to finance construction, acquisition, furnishing and equipping of District facilities as listed in the approved project list for facilities of the District. The bond project list includes:

- Easing of overcrowding by reconstructing, reconfiguring, modernizing, and remodeling existing classrooms, offices, laboratories, and other facilities
- Constructing a new Industrial Technology Building
- Constructing a new Arts Building
- Easing parking and traffic congestion by constructing a new Parking Structure
- Constructing a new Campus Center

Additionally, the following projects were approved:

- Upgrade of water, plumbing, electrical, and ventilation systems
- Modernization and construction of new restrooms
- Improvement of roadways, walkways, grounds, parking lots, fencing, and entrances to the campus
- Preparation and implementation of Facilities Master Plan and related requirements such as environmental impact reports and soils testing
- Demolition of obsolete facilities
- Relocation and/or acquisition of temporary facilities during the modernization, renovation, improvement, and/or new construction of project components as necessary to maintain educational programs in operation during construction
- Acquisition of furnishings and equipment for all modernization, renovation, improvement, and/or new construction projects
- Purchase and installation of signage for safety and public information purposes

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE P)**

JUNE 30, 2012

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in *Education Code* Sections 15278-15282:

- Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other operating expenses.
- The District must list the specific projects to be funded in the ballot measure and must certify that the governing board has evaluated safety, class size reduction, and information technology needs in developing the project list.
- Requires the appointment of a Citizens' Oversight Committee to review and monitor the various projects and report to the community the progress of the projects.
- Requires an annual independent financial audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
- Requires an annual independent performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States to ensure that the funds have been expended only on the specific projects listed.

OBJECTIVES OF THE AUDIT

Determine whether expenditures charged to the General Obligation Bond Fund have been made in accordance with the bond project list approved by the voters through the approval of the Measure P.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2011 to June 30, 2012. The population of expenditures tested included all object and project codes associated with the Bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the Bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2012, were included within the scope of our audit for the purpose of determining the proper accounting period for the expenditure.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE P)**

JUNE 30, 2012

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2012, for the General Obligation Bond Fund (Measure P). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure P as to the approved bond project list. We performed the following procedures:

- We verified that a separate General Obligation Bond Fund of the District has been established to account for the receipt of bond proceeds and expenditure of the funds for the period July 1, 2011 through June 30, 2012.
- We selected a sample of expenditures for the period starting July 1, 2011 and ending June 30, 2012, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
- Our sample included transactions totaling \$9,230,469. This represents 74 percent of the total expenditures of \$12,518,087.
- We verified that funds from the General Obligation Bond Fund (Measure P) were expended for the voter authorized bond projects as listed in the Approved Bond Project Listing.
- We reviewed the detailed accounting of expenditures to determine if proceeds are being spent on administrative salaries or any other expense that would otherwise be the obligation of the General Fund. We noted no salary transactions charged to the Measure P Bond Funds.
- We reviewed minutes of the Citizens' Oversight Committee to determine whether the committee was functioning as required.

CONCLUSION

The results of our tests indicated that, in all significant respects, Pasadena Area Community College District has properly accounted for the expenditures held in the General Obligation Bond Fund (Measure P), and that such expenditures were made for authorized Bond projects. Additionally, the Citizens' Oversight Committee has met during the year to review activity and report the progress of approved projects to the community.